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তারিখ: ২৫ আগস্ট ২০২১

## প্রজ্ঞাপন

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স্বাক্ষরিত  
২৫/০৮/২০২১  
( কামরুল হক মারুফ )  
উপসচিব  
ফোনঃ ৯৫৪৬৭০৯  
ds.project@fid.gov.bd

নং-৫৩.০০.০০০০.৮৩১.১৪.০৬৫.২১-৮৮৫

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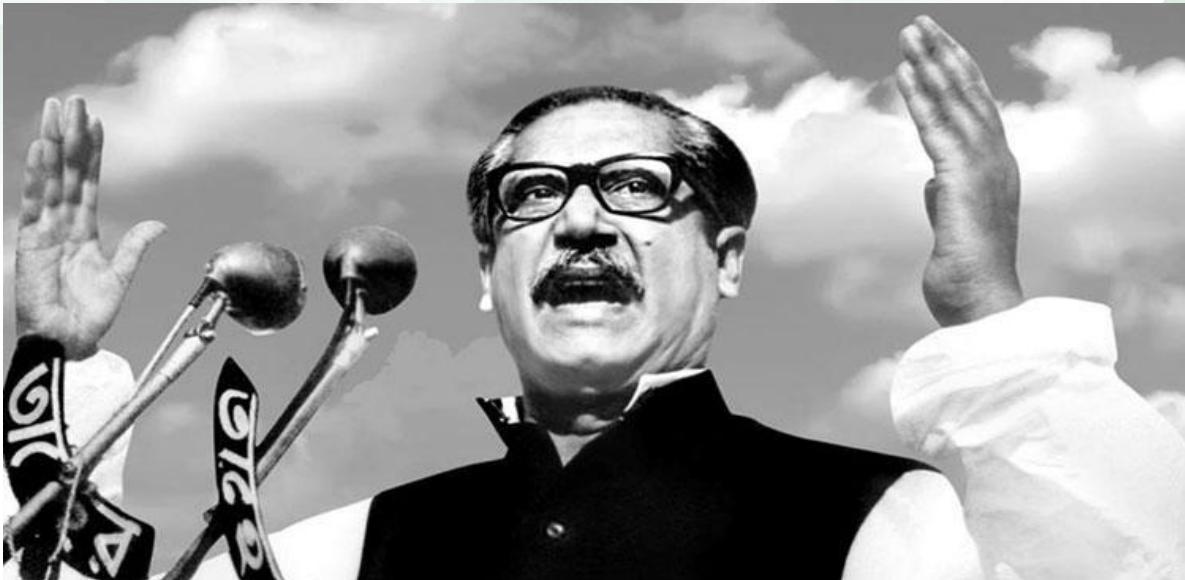
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(কামরুল হক মারুফ)  
উপসচিব



# National Financial Inclusion Strategy

**Financial Institutions Division**  
Ministry of Finance  
Government of the People's Republic of Bangladesh  
And  
Bangladesh Bank



*“...No plan, however well-formulated, can be implemented unless there is a total commitment on the part of the people of the country to work hard and make necessary sacrifices. All of us will, therefore, have to dedicate ourselves to the task of nation building with single-minded determination. I am confident that our people will devote themselves to this task as much courage and vigour as they demonstrated during the war of liberation.”<sup>1</sup>*

-The Father of the Nation Bangabandhu Sheikh Mujibur Rahman

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<sup>1</sup> Excerpt from the Forward of the First Five Year Plan of Bangladesh in 1973.





## National Financial Inclusion Strategy

*Journey towards Sustainable and  
Impactful Financial Inclusion through  
Digitization and Innovation*





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## Executive Summary

Bearing the dream of The Father of the Nation Bangabandhu Sheikh Mujibur Rahman to build the ‘Sonar Bangla’ in mind and keeping the ‘Vision 2021’ and ‘Vision 2041’ ahead the first **National Financial Inclusion Strategy (NFIS)** has been developed at the verge of Fourth Industrial Revolution. This strategy has been drafted by following **5C** (*Commitment, Cooperation, Co-ordination, Co-existence, Comprehensive*) principles of national strategy development to reach the ultimate goal of Social cohesion and stability through ensuring the scope of access and usage of quality financial services for all. To reach this ultimate goal, the core theme of the NFIS will be "*Journey towards Sustainable and Impactful Financial Inclusion through Digitization and Innovation*".

For any country’s development, transformation of informal sector into formal structure is one of the key steps. Financial inclusion has been identified as a key-enabler in this regard. Access to finance for the poor is essential to promote inclusive economic growth and to eradicate poverty in the country. Financial service providing is the process by which finance is mobilized and used in the economy. A developed inclusive financial system not only expedites the process of resource mobilization and use, it also provides financial services to all who need them. It creates employment opportunities, ensures economic and financial stability through reducing vulnerability, and contributes to poverty reduction. As a policy, financial inclusion is recognized to have significant potential for improving the well-being for all, and especially for the participants in unserved and under-served financial markets who belong to the poor and marginalized groups; CMSMEs; small and marginal farm households; participants in informal sector activities; youth and women belonging to poor households; small ethnic group; physically and mentally challenged persons; marginalized and other disadvantaged groups.

In this reality, despite the COVID-19 pandemic, the progress of digital financial services has been boosted manifold. Low-income households and small firms are benefitted greatly from advances in mobile money, fintech services, and online banking. Digital Financial inclusion boosts economic growth. The shift towards digital financial services was already helping societies’ advance financial inclusion before the pandemic started, benefiting many low-income households and small firms with typically little access to traditional financial

institutions. Lockdown and social distancing are accelerating the use of digital financial services. During the COVID-19 lockdown, digital financial services have enabled the government to provide quick and secure financial support to “hard-to-reach” people and businesses. This pandemic has fortified the urgency for a coordinated national plan for financial inclusion.

The economy of Bangladesh has been achieving more than 6% real GDP growth on average for more than a decade. One of the drivers of Bangladesh’s high and stable growth is pursuing inclusive development strategy successfully which is supported by initiatives for inclusive financing, along with implanting these objectives into the country’s financial sector. Bangladesh is now undergoing a period of ‘double transition’. From income perspective categorized by World Bank, it entered into the Lower Middle Income Country (LMIC) group in 2015. From the development context of United Nations’ country classification, the country will be graduated from the Least Developed Country (LDC) to Developing Country in 2026. In February 2021, the United Nations Committee for Development Policy (CDP) has recommended Bangladesh's graduation from LDC status. In view of the impact of the Covid-19 pandemic on the economy, the CDP recommended that Bangladesh get five years, till 2026, to prepare for the transition to a developing country.

Bangladesh is a pioneer in financial inclusion with its recent strides towards ‘Digital Bangladesh’, rapid development of the financial sector, rich heritage in microfinance, and unprecedented gains in adopting digital finance and expanding mobile financial services. The government treats finance as a powerful tool of inclusive growth and shared prosperity. The country’s development strategies recognize that national development will be sustainable if expanded financial services are made available to the entire population. The country’s aim is to achieve ‘a happy, prosperous and enlightened Bangladesh which is free from hunger, poverty, inequality, illiteracy, and corruption and belongs completely to its citizens and maintains a healthy environment’<sup>2</sup>. So, access to finance is taken as an important precondition for inclusive development. In a developing economy like Bangladesh, changing and emerging nature of jobs and businesses due to technological evolution, natural disasters and supra-normal events like Covid-19 foster demand for new financial products. The young,

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<sup>2</sup> National Sustainable Development Strategy

tech-savvy and increasingly educated populations provide a growing customer base for new financial services. Adoption of ICT is changing the nature of financial engagement, introducing opportunities for e-commerce, fintech, digital credit which create an opportunity to leapfrog stages of financial development through more intuitive interactive technologies like Blockchain, Artificial Intelligence (AI), Machine Learning (ML), Internet of Things (IoT), Big Data Analytics etc.

Despite these advances, three common factors are identified which are responsible for financial exclusion in Bangladesh:

- (i) difficult-to-access localities: remote hilly and sparsely populated areas; haor, char and similar areas with difficult terrain; and relatively underdeveloped areas with poor infrastructure;
- (ii) demand-induced impediments: low incomes, lack of financial education, social exclusion and other constraints to availing economic opportunities; and
- (iii) supply-led bottlenecks: distant location of bank branches, inconvenient timings, cumbersome documentation requirements and procedures, unsuitable products and inconvenient delivery mechanisms and similar other factors that preclude the inclusion of specific groups.

Bangladesh's financial system is relatively strong and stable with continuing rapid growth in financial resources over the last few decades. Bangladesh's financial system has experienced rapid changes, especially in response to on-going transformation and changing structure of the real economy. Financial Access Survey (FAS) published by IMF in November 2020 shows that, despite recent gains, Bangladesh still possesses the scope to reach the South Asian average in most indicators on financial inclusion which themselves are low relative to global standards. In Bangladesh, financial inclusion is conceived in a comprehensive manner with at least five dimensions:

- Access to a full range of quality financial services, including credit, savings, insurance, and payments;
- Affordable Financial services delivered with quality and convenience that ensure dignity and client protection;
- Capable consumers for making informed and good finance management decisions;
- Available financial services for all, and

- Need for a range of providers, a robust financial infrastructure, a clear regulatory framework as well as financial services as per the client's choice through a diverse and competitive financial market.

Thus, financial inclusion penetration in Bangladesh has been driven through banking sector (inclusive monetary policy; inclusive finance like agricultural, CMSME and sustainable finance; innovative products/services; digital financial services (DFS); consumer protection and financial literacy; strengthening AML/CFT actions; risk management), Micro Finance Institutions (MFI) sector, insurance and capital market intermediaries, the cooperatives, Bangladesh Post Office, Amar Bari Amar Khamar Project & Palli Sanchay Bank, G2P Payment digitization, Diverse initiatives of ICT Division of Ministry of Posts, Telecommunications and Information Technology like the DFS Lab+ of a2i project and Start-Up Bangladesh.

Rapid economic growth and promoting financial inclusion for the last mile have been affected by COVID-19 global pandemic during 2020. The global lockdown has severely disrupted international and domestic trade, affecting the financial health of large manufacturers, CMSMEs and individuals employed in both formal and informal sector across urban and rural economy in Bangladesh. In this context, the government has designed support packages for quick recovery of different sectors, which will be facilitated by the financial institutions. NFIS will have a crucial role to play in driving this economic recovery effort. COVID-19 has brought significant changes in the status quo which has shown that supra-normal catastrophe has adverse affect on poverty alleviation and employment generation attempts, unless addressed with a comprehensive home-grown model.

To find that country specific model, the next challenging trajectory for Bangladesh will be the formulation and implementation of NFIS. This is one of the basic premises of the need for a NFIS as it will provide a comprehensive framework with all stakeholders' participation and facilitate prioritization and coordination through leveraging synergies.

NFIS is a roadmap of actions, agreed and defined at the national or sub-national level, which stakeholders follow to achieve financial inclusion objectives. It provides an excellent opportunity to introduce an evidence-based, prioritized, better resourced, and more

comprehensive approach to expanding access and usage of financial services. NFIS has gained a great deal of footing in recent years and are becoming an increasingly common policy approach in many countries. This surge in interest is also due to better available data on financial exclusion and a better understanding of NFIS to achieve financial inclusion objectives.

Addressing financial inclusion at national policy level is done at global level in three alternative approaches (National Financial Inclusion Strategies Resource Center of World Bank):

1. Formulating National Financial Inclusion Strategy – *38 countries*;
2. Ingraining Financial Inclusion in National Financial Sector Strategy – *12 countries*;
3. Formulating Financial Inclusion Law – *2 countries*.

To tap the high potential of digital financial services in the post-COVID era, following factors need to fall into place—

- Equal access to digital infrastructure (access to electricity, mobile and internet coverage, and digital ID);
- greater financial and digital literacy; and
- the avoidance of data biases.

The pandemic has shown that the trend towards greater digitalization of financial services is here to stay. This means finding the right balance between enabling financial innovation and risk management considering following issues: consumer protection, financial and digital literacy, equal access to digital infrastructure, and avoiding data bias at the national level; as well as addressing money laundering and cyber risks through international agreements and information sharing, including laws to ensure adequate competition. These issues have been well addressed in the NFIS. The development process of NFIS for Bangladesh has been structured through detailed diagnostic study and diverse extent of 15 consultations across sectoral, regional and national level to make it comprehensive and inclusive.

The duration of the NFIS will be 5 years i.e. July 2021 to June 2026. This strategy has established its linkages with Perspective Plan of Bangladesh 2010-2021, Perspective Plan of Bangladesh 2021-2041, 7<sup>th</sup> Five Year Plan, 8<sup>th</sup> Five Year Plan and other relevant national plans. The timeline is crucial, as Bangladesh economy must recover from the slowdown in

growth due to COVID-19 pandemic and build back better to continue its journey towards graduation from the LDC group by 2024 as well as the achievement of SDGs by 2030. Thus, this strategy will facilitate the achievement of 46 targets under 14 of 17 Sustainable Development Goals (SDGs). *Digital Transformation of the economy and Innovation* have been identified as two key base approaches of NFIS following the vision of ‘*Digital Bangladesh*’ and ‘*Innovative Bangladesh*’.

This strategy has made an effort to set the national definition of financial inclusion as, “*Access of individuals and businesses including unserved and underserved to the full range of financial services facilitated with technology provided at affordable cost with quality, ease of access and scope of risk mitigation in responsible and sustainable manner through a regulated, transparent, efficient and competitive financial marketplace.*”

NFIS has spotted its strategic vision as “*An integrated financial system supportive to rapid and inclusive development of the country’s potential sectors, be accessible and responsive to the needs of the population such that they can regularly use financial products and services to manage their cash flows and needs of livelihoods, and mitigate shocks as needed at individual, household and enterprise levels*” along with following three core dimensions:

- a. All adults have individual, full-service, safe and secure regulated financial service account facilitated by technology.
- b. Each account holder has access to electronic financial service points within reasonable distance having cash deposit, withdrawal and transfer facilities in a secure environment and at reasonable costs.
- c. All households and businesses including overseas migrant workers along with their families and Non-Resident Bangladeshis (NRBs) have convenient access, at reasonable costs, to appropriately regulated : (i) a full range of credit and other financial services products; (ii) appropriate deposit and investment products; (iii) a range of insurance (including micro insurance) and risk management products; and (iv) legally protected rights to be offered for appropriate financial products and services by the providers and the right to make informed decisions.

This strategy has been formulated with 7 objectives, 12 strategic goals consisting of 69 targets on financial inclusion of Bangladesh. To implement NFIS, the role of financial service providers and development partners has been elaborated. The coordination structure of NFIS has been segregated into three tiers by making the Minister, Ministry of Finance on top of it as strategic chief. Bangladesh Bank has been identified as central implementing agency and for establishing and operating the administrative unit of NFIS. An action plan has put in place by keeping sufficient flexibility in context of technological evolution and financial sector dynamism.



## Acknowledgement

This formulation process of National Financial Inclusion Strategy (NFIS) is highly indebted to Sheikh Hasina, Honourable Prime Minister of the Government of the People's Republic of Bangladesh for her prudent guidance, utmost commitment, and valiant leadership to make this strategy document live. ‘Digital Bangladesh’ as initiated by Honourable Prime Minister a decade ago basically laid the foundation of financial inclusion; it drove us towards technological solutions for overcoming the barriers of national development. She is the one who drove the steering of financial inclusion initiatives all over the country through public, private and development sector interventions for more than decade. NFIS will accelerate this process in an orderly and inclusive way.

“Business Finance for the Poor-Bangladesh” project funded by DFID of Government of United Kingdom has provided persistent funding and technical support in the development process of NFIS. The development journey of NFIS is grateful to United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) and Her Excellency Queen Máxima of the Netherlands for her keen zeal towards the financial inclusion drive of Bangladesh and NFIS. UNCDF Bangladesh also extended their cooperation for preparing the draft.



## Acronym

a2i	- Aspire to Innovate
AFI	- Alliance for Financial Inclusion
ATM	- Automated Teller Machines
AML	- Anti-Money Laundering
AIF	- Alternative Investment Fund
API	- Application Programming Interface
BB	- Bangladesh Bank
BFP-B	- Business Finance for the Poor in Bangladesh
BHBFC	- Bangladesh House Building Finance Corporation
BMDF	- Bangladesh Municipality Development Fund
BPO	- Bangladesh Post Office
BSEC	- Bangladesh Securities and Exchange Commission
BTRC	- Bangladesh Telecommunication Regulatory Commission
CIB	- Credit Information Bureau
CMSME	- Cottage, Micro, Small and Medium Enterprise
CFT	- Combating Terrorist Financing
DFS	- Digital Financial Service
DLT	- Distributed Ledger Technology
e-KYC	- Electronic KYC
ERQ	- Exporters' Retention Quota
FATF	- Financial Action Task Force
FOREX	- Foreign Exchange
FI	- Financial Institution (Non-bank)
FID	- Financial Institutions Division
FSP	- Financial Service Provider
G2P	- Government-to-person
GDP	- Gross Domestic Product
IBFT	- Inter Bank Fund Transfer
ICB	- Investment Corporation of Bangladesh
ICT	- Information and Communication Technology
ICTD	- Information and Communication Technology Division
IMF	- International Monetary Fund
ISP	- Internet Service Provider
IT	- Information Technology
KYC	- Know Your Customer
LDC	- Least Developed Country
LMIC	- Lower Middle Income Country
M&E	- Monitoring and Evaluation
MDG	- Millennium Development Goal
MFI	- Micro Finance Institution
MFS	- Mobile Financial Service
MNO	- Mobile Network Operator
Mof	- Ministry of Finance
MRA	- Microcredit Regulatory Authority
NAU	- NFIS Administrative Unit
NFC	- Near-Field Communication
NFIS	- National Financial Inclusion Strategy



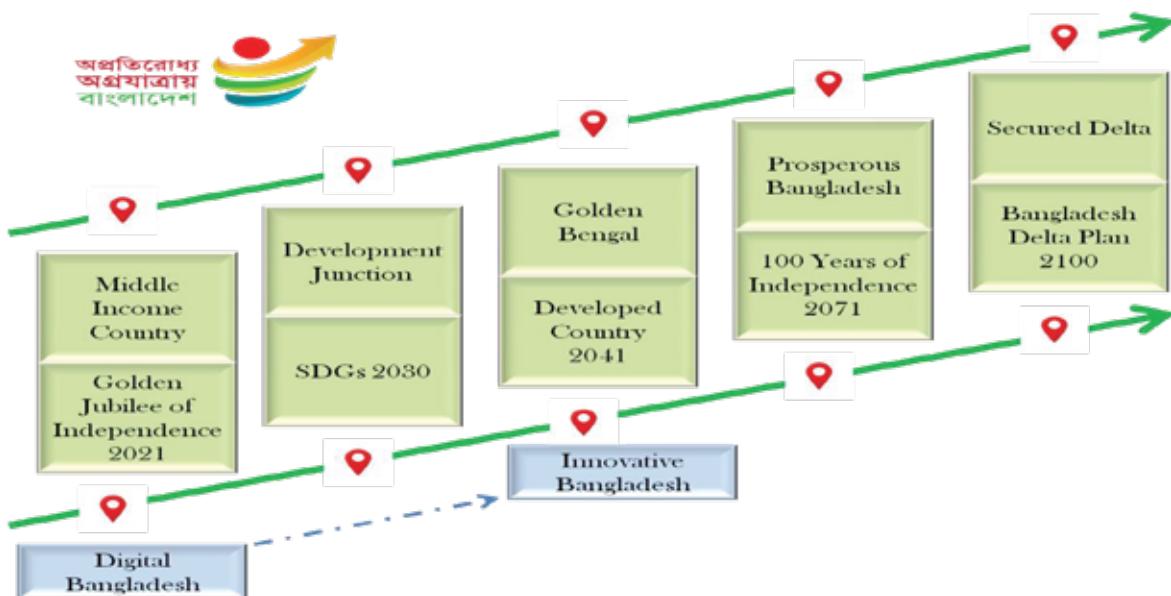
NGO	- Non-Governmental Organization
NID	- National ID
NIDW	- National ID Wing
NNC	- NFIS National Council
NPO	- Non Profit Organization
NSC	- NFIS Steering Committee
NRB	- Non Resident Bangladeshi
OPGSP	-Online Payment Gateway Service Provider
PAC	- Policy Advisory Committee
P2G	- Person-to-Government
P2P Lending	- Peer-to-Peer Lending
PKSF	- Palli Karma Sahayak Foundation
POS	- Point of Sales
PSP	- Payment Service Provider
PTD	- Post and Telecommunications Division
QRC	- Quick Response Code
SDG	- Sustainable Development Goal
SMEF	- SME Foundation
SPV	- Special Purpose Vehicle
TC	- Technical Committee
ToR	- Terms of Reference
UNSGSA	- UN Secretary-General's Special Advocate for Inclusive Finance for Development



## National Financial Inclusion Strategy (NFIS)

### 1. Background

The economy of Bangladesh has been achieving more than 6.5% real GDP growth on average for more than a decade; it recently has crossed the 8% landmark in FY 2018-19 and shows strong trends to grow faster in the coming years. For this resilient economic base, the GDP growth has been 5.24% in FY 2019-20 even after massive strike of COVID-19 (SARS-CoV-2). One of the drivers of this high and stable growth is Bangladesh's success in pursuing inclusive development strategy, supported by initiatives for inclusive financing, along with implanting these objectives into the country's financial sector.



**Figure 1: Development Trajectory of Bangladesh up to 2100**

At present, the regulated financial institutions mentored by Government policies actively promote financial inclusion initiatives. The inclusive financing initiatives, which allow credit and other financial services to flow to the vast majority of the small, marginal and tenant farmers; cottage, micro, small, and medium enterprises (CMSMEs); and other financially excluded groups/activities, have helped to enhance macro-financial stability, along with the incremental output on the supply side, and the additional employment and income generation on the demand side. Bangladesh's long-term goal is to emerge as a developed country by 2041 entailed in Perspective Plan of Bangladesh 2021-2041, for which, explicit medium-term goals have been set

under Vision 2021 and other strategic plans, including the Perspective Plan (2010-2021), the 7<sup>th</sup> Five-Year Plan (2016-2020) and the 8<sup>th</sup> Five-Year Plan (July 2020-June 2025). Bangladesh has also adopted Sustainable Development Goals (SDGs) to be achieved by 2030.

The pace of development in Bangladesh got momentum through the first half of 2019-20 until the outbreak of corona virus (COVID19) emerged as global pandemic. ‘Great Lockdown’ around the world seriously affected the global economic growth, trade and investment; leading to a recession never experienced in hundred years. Bangladesh was not exception from the negative fallout of this pandemic. Due to long holidays and closure of factories, business, shops, hotels, restaurants, public transportation etc. since late March, almost all the sectors of the economy got affected and particularly livelihood of millions of people experienced much difficulties.

To ensure recovery of the economy from this crisis and to support the affected sectors and the people, particularly the poor and vulnerable, Honorable Prime Minister declared a large stimulus package of more than 1.24 trillion Taka which is 4.44% of GDP. The package has 23 programs of fiscal support and stimulus measures, which include interest subsidies to industries, working capital for large and CMSMEs, social protection transfers to vulnerable sections of the population and funding in emergency healthcare services. The nation is confident that these countercyclical measures will help the country achieve a full economic recovery. In addition, the government will continue to pursue prudent macroeconomic policies to ensure low inflation, low interest rate and stable exchange rate. Internal resource mobilization will be geared up in the medium term through instituting policy and procedural reforms. Mobilizing external resources will also be a priority. Response from development partners in the form of budget support to address the impact of COVID-19 is commendable. Bangladesh Bank (BB), the central bank being the key agency to implement the stimulus package has formulated 9 Refinance Schemes of 947.50 billion Taka for large and CMSMEs, Agricultural Sector and Informal Sector (Poor and Marginal People) as well as a Credit Guarantee Scheme for CMSE. Apart from that, BB has reduced a range of policy rate and regulatory ratios like Repo (Repurchase Agreement) rate, Reverse Repo Rate, Bank Rate, Cash Reserve Ratio and Advance-Deposit Ratio for injecting liquidity into money market. A number of liberalized policies on foreign exchange transaction and trade have been initiated after the attack of corona virus pandemic to boost up the export-import, wage earners’ remittance and foreign investment. Support policies on bank credit have

also been provided to support the recovery the businesses and industries. Post-COVID first monetary policy has also been essentially expansionary and accommodative for all growth support for the macro economy.

Among other financial sector regulatory agencies, Bangladesh Securities and Exchange Commission (BSEC) has taken initiatives to digitize all the aspects of capital market for facilitating automated trading and investment experience. Microcredit Regulatory Authority (MRA) has provided relaxation space for micro-finance borrowers for combating economic backslash due to COVID-19.

For achieving the comprehensive vision of the country's development agenda and quick, stable and resilient recovery of socio-economic structure of Bangladesh, one of the priorities of the government is to increase the access for all individuals and enterprises to quality financial products and services so that the inclusiveness of the financial sector matches the depth and diversity of the development agenda. Moreover, the 'Great Lockdown of 2020' has crudely showed the 'all-out' essentiality of 'Digital Financial Inclusion' for the transformation of informal sector into the formal one and the holistic economic prosperity.

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

Bangladesh is now undergoing a period of 'double transition' – with its recent entry to the LMIC group (2015) and forthcoming graduation from the LDC group (2026). The availability of appropriate and affordable financial services improves the welfare of poor people since they can use their money more efficiently. They can start saving and also gain access to financial products such as loans and insurance. Furthermore, banks and other financial institutions are able to mobilize these savings for investments that, in turn, can help grow the country's productive sectors. The whole financial system becomes more efficient and a driver for economic growth.

Meanwhile, an improved financial infrastructure reduces contracting and transaction costs, which can further accelerate growth.

This is the basic premise of the need for a National Financial Inclusion Strategy (NFIS), as it will:

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

Moreover, as a leading member of Alliance for Financial Inclusion (AFI) and being one of the signatories of the Maya Declaration<sup>3</sup>, Bangladesh committed internationally in 2014 to develop its NFIS. This commitment was reiterated in 2015 and 2019 during the visit of Her Majesty Queen Máxima of the Netherlands to Bangladesh, who is also the UN Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA).

Thus, Financial Institutions Division (FID) of the Ministry of Finance and Bangladesh Bank jointly took an initiative to develop a draft of NFIS in 2016, with the support from the Government of United Kingdom.

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<sup>3</sup> The Maya Declaration, a member institution's self-commitment regarding financial inclusion has been introduced by AFI in September 2011 at the AFI Global Policy Forum in Riveria Maya, Mexico.

## 2. Financial Inclusion- Bangladesh Perspectives

Bangladesh is a pioneer in financial inclusion with its recent strides towards ‘Digital Bangladesh’, rapid development of the financial sector, rich heritage in microfinance, and unprecedented gains in adopting digital finance and expanding mobile financial services. The government treats finance as a powerful tool of inclusive growth and shared prosperity. Available evidence shows significant beneficial impact of access to, and usage of, financial services on social and economic outcomes at both household and business levels; and access to finance is seen as essential for poverty eradication in Bangladesh. Conversely, persistent financial exclusion has significant negative effects on prosperity, inclusive growth, income equality, social cohesion and financial stability. The country’s development strategies recognize that national development will be undermined if expanded financial services are not made available to the entire population. Since the country’s aim is to achieve ‘a happy, prosperous and enlightened Bangladesh which is free from hunger, poverty, inequality, illiteracy, and corruption and belongs completely to its citizens and maintains a healthy environment’, access to finance is taken as an important pre-condition for inclusive development. The Seventh Five Year Plan (2016-2020) and The 8th Five Year Plan (2021-2025) aim to implement ‘continuous reforms ranging across financial sector policies, financial infrastructure, regulatory and supervisory institutions for expanding access to financial services to the underserved including micro and household enterprises now operating in the informal market and deepen the financial markets with introducing relevant products’. For realizing the country’s development agenda, it is essential to harness the transformative power of financial inclusion for unserved and underserved population groups and enterprises including CMSMEs. Financial inclusion, bringing the excluded people into the formal financial system by giving them access to financial products and services, is thus taken as an essential policy pillar for sustainable and equitable growth in Bangladesh.

## 3. Financial Inclusion-Where Bangladesh Stands

The rapidly growing economy of Bangladesh is a powerful driver of financial inclusion. Bangladesh has experienced a sustained period of growth over recent decades, with GDP expanding at more than 6% per annum. The distribution of gains has been wider; moreover, migration and agricultural modernization have served to achieve a relatively even pattern of

growth, with income inequality, measured by the Gini coefficient, rising marginally in the 2000s. Development has been buoyed by the creation of opportunities in export-oriented industries like readymade garments, as well as international remittances from the rising Bangladeshi diaspora. This growth has helped to reduce the proportion living below the national poverty line, which declined from 49% in 2000 to about 21% in 2018.

In a developing country, changing occupational relationships create demand for new financial products. As seen from the Labor Force Surveys, between 2006 and 2017, there has been an increase in the proportion of employment in industry sector, which rose from 15% to 20% of employment and service sector, from 37% to 39%, crowding out employment in agriculture (which fell from 48% to 40%). The growth of salaried manufacturing work provides higher, more stable income providing an incentive to seek formal financial services to manage cash flows. In 2017, of the total 24 million paid adults, 57% were paid in monthly installments, compared with 34% paid on a daily basis. Among paid agricultural laborers, 61% received their wage on a daily basis. Moreover, there is still a large fraction of the labor force that is self-employed or carries out unpaid work. While this group is declining in size relative to paid labor, their evolving financial needs, particularly self-employed small business owners, will drive the demand for financial services over the coming years.

The young and increasingly educated population provides a growing customer base for new financial services. More than 50% of the population is under the age of 35, which coincides with growing levels of educational attainment, illustrated by the growing proportion of the labor force that attained higher secondary or tertiary education. Therefore, there is cause for optimism regarding the coming cohort of financial consumers; this however rests on the education system's ability to transmit fundamental financial skills.

Mobile and internet adoption is changing the nature of financial engagement, introducing opportunities for e-commerce. This acts as an opportunity to leapfrog stages of financial development through more intuitive smart-phone applications. As internet penetration grows, many aspects of financial service provision are moving online, reducing the reliance on face-to-face interactions. This is not just a result of smart-phone ownership; personal computers create

demand for internet banking and hasten progress towards the global standard of widespread digital payments and online commerce.

The role of technology also raises concerns about the digital divide, particularly from a gender perspective. The notion of digital divide reflects differences in the access and use of digital technology. Owing to greater adoption of digital financial services, this divide is likely to become an increasingly important dimension of financial inclusion. The increasing complexity of supply chains creates demand for innovative financing and payments solutions. The transition towards a more interconnected and export-oriented economy creates opportunities for companies and the financial sector. Surrounding major exporters, for example, in a host of interconnected ancillary companies with a longstanding working relationship, may enable modes of lending such as cluster and value chain financing, where intermediaries provide financing to groups within a supply chain. Alternatively, intermediation can occur through supply chain financing, where working capital can be provided at short notice, with assets such as inventory or accounts receivable used as collateral. It therefore provides a new source of liquidity for companies and because it relies on aspects like contract security, is likely to benefit from technologies like the block chain.

This strategy paper includes a comprehensive analysis of the current status of constraints to, and opportunities for, financial inclusion to define measurable financial inclusion goals; how Bangladesh would reach these goals and by when; and how to assess the progress and achievements of the strategy. It provides an analytical and in-depth assessment of financial inclusion and financial infrastructure revealing the current status and helping to identify the binding constraints on expanding financial inclusion and suggesting policy priorities for the strategy. These diagnostics are comprehensive and use both demand and supply side information relating to access and use of financial products and services.

Three major common factors are identified which are responsible for financial exclusion in Bangladesh: (i) difficult-to-access localities: remote hilly and sparsely populated areas; haor, char and similar areas with difficult terrain; and relatively underdeveloped areas with poor infrastructure; (ii) demand-induced impediments: low incomes, lack of financial awareness and education, social exclusion and other constraints to availing economic opportunities; and (iii)

supply-led bottlenecks: distant location of bank branches, inconvenient timings, cumbersome documentation requirements and procedures, unsuitable products and inconvenient delivery mechanisms, unfriendly staff attitudes and similar other factors that preclude the inclusion of specific groups. Some other factors of financial exclusion are limited access or no access to land ownership, lack of financial capability and collateral for women and lack of their formal identification.

Over the years, Bangladesh has also emerged as the global leader in MFIs in addition to state-owned and private commercial banks, specialized banks, insurance companies and other nonbank financial institutions. The development of alternative banking channels by the banks includes ATMs and various multibank switches such as Cash Link, Q-Cash and Omnibus. In this context, MFS have also emerged as an effective opportunity to build alternative banking channel and make transaction points more widely available. Agent banking has been working towards establishing itself as a strong alternative for remote rural consumers to access financial services. The Agent networks provide an opportunity to rapidly improve the breadth of the financial system.

Over the decades, Bangladesh's financial system has experienced rapid changes, especially in response to on-going transformation and changing structure of the real economy. In recent periods, financial inclusion landscape has been undergoing impressive improvements. Rapid expansion of infrastructures and improvements in connectivity are driving down the cost of expansion for the financial institutions and the traditional 'brick-and-mortar' branches and touch points are increasingly being supplemented by digital networks. The country's network of financial institutions has expanded rapidly, propelled by the growth of both formal (e.g. banks) and quasi-formal (e.g. MFIs, cooperatives) institutions and through exploring new ideas, benefitting from new technologies and learning from experiences. The World Bank Group's Global Findex data and IMF's Financial Access Survey (FAS) data are the mostly accepted data on financial inclusion of different countries. The last edition of Global Findex was published in 2017. For contextualizing the recent landscape of financial services in Bangladesh, the following table of key financial access survey (FAS) indicators published by IMF in November, 2020 shows significant progress of financial inclusion specially in number of ATM, depositors, mobile

money agent outlets, registered mobile money accounts and mobile money transaction value over the period of 2017 to 2019 in Bangladesh.

**Table 1: Progress of Key FAS Indicators of Bangladesh**

Key FAS Indicators	2017	2018	2019
Number of ATMs per 100,000 adults	8.36	8.89	9.39
Number of commercial bank branches per 100,000 adults	8.82	8.94	9.00
Number of depositors with commercial banks per 1,000 adults	730.84	787.72	848.87
Number of borrowers from commercial banks per 1,000 adults	83.10	83.13	82.95
Outstanding deposits with commercial banks (% of GDP)	50.22	48.39	48.32
Outstanding loans from commercial banks (% of GDP)	42.69	42.79	41.86
Outstanding small and medium enterprise (SME) loans from commercial banks (% of GDP)	10.69	8.89	8.96
Number of registered mobile money agent outlets per 1,000 km <sup>2</sup>	6,047.62	6,790.85	7,468.34
Number of registered mobile money accounts per 1,000 adults	513.04	582.25	672.62
Value of mobile money transactions (during the reference year) (% of GDP)	15.93	16.85	17.10
Data Source: Financial Access Survey (FAS), November 2020, International Monetary Fund			

On the other hand, if we have a look at scenario of financial services in Bangladesh, following table provides a comparison of Bangladesh with other South Asian countries using data of 2019 as shown in key financial access survey (FAS) indicators published by IMF in 2020.

**Table 2: Comparative picture of Key FAS Indicators in South Asian Countries**

Key FAS Indicators	Afghanistan	Bangladesh	Bhutan	India	Nepal	Pakistan
Number of ATMs per 100,000 adults	1.64	9.39	48.09	20.95	16.46	10.84
Number of commercial bank branches per 100,000 adults	1.87	9.00	19.31	14.58	17.79	10.41
Number of depositors with commercial banks per 1,000 adults	183.29	848.87	NA	NA	NA	375.89
Number of borrowers from commercial banks per 1,000 adults	3.02	82.95	NA	NA	NA	23.07

Key FAS Indicators	Afghanistan	Bangladesh	Bhutan	India	Nepal	Pakistan
Outstanding deposits with commercial banks (% of GDP)	17.38	48.32	82.91	63.27	83.27	36.31
Outstanding loans from commercial banks (% of GDP)	2.77	41.86	92.22	48.55	72.18	20.29
Outstanding small and medium enterprise (SME) loans from commercial banks (% of GDP)	0.14	8.96	NA	6.44	NA	1.07
Number of registered mobile money agent outlets per 1,000 km <sup>2</sup>	3.29	7,468.34	NA	NA	585.99	567.12
Number of registered mobile money accounts per 1,000 adults	2.53	672.62	NA	1,264.79	188.67	327.79
Value of mobile money transactions (during the reference year) (% of GDP)	0.17	17.10	NA	0.90	1.64	11.86
NA: In case of mobile money, NA indicates that there are no mobile money services in the country. For other indicators, it indicates the lack of statistical data.						
Data Source: Financial Access Survey (FAS), November 2020, International Monetary Fund						

It is mentionable that the key financial access survey (FAS) indicators shown above have been published by IMF in 2020 and it contains data of 2019. Bangladesh Bank regularly collects data from all the financial service providing institutions in Bangladesh where Total Number of Bank Branches, ATM machines, Deposit accounts (Including Special A/C), MFS Account, Agent Banking accounts, School Banking Account are included as provided in table 4.

**Table 3: Financial Inclusion Statistics of Bangladesh**

Key Financial Inclusion Indicators	Dec-2017	Dec-2018	Dec-2019	Dec-2020*
<b>Number of Bank Branches</b>	9,955	10,281	10,568	10,671
<b>Number of ATM</b>	9,522	10,280	10,924	11,923
<b>Number of Deposit A/C (Including Special A/C)</b>	96,497,905	97,118,819	107,895,699	115,932,106
<b>Loan A/C</b>	NA	10,076,372	10,331,866	10,667,037
<hr/>				
<b>MFS Account</b>	Male Account	NA	35,954,889	40,314,735
	Female Account	NA	31,558,910	39,181,932
	Others Account	NA	2,208	157,081
	<b>Total Account</b>	58,787,627	67,516,007	79,653,748
<hr/>				
<b>Agent</b>	Male Account	NA	1,619,375	2,977,556
				5,282,197

Key Financial Inclusion Indicators		Dec-2017	Dec-2018	Dec-2019	Dec-2020*
Banking Account	Female Account	NA	809,376	2,203,857	4,075,833
	Others Account	NA	26,724	76,356	287,969
	<b>Total Account</b>	1,214,561	2,455,475	5,257,769	9,645,999
Special Account	Farmers 10 TK A/C	NA	7,965,034	8,628,964	9,047,724
	Social Safety A/C	NA	4,907,721	7,141,842	9,310,586
	Hardcore Poor A/C	NA	1,997,003	2,216,527	2,467,658
	School Banking Account	1,313,158	1,596,606	1,925,368	2,620,334
	Other Special A/C	NA	2,290,024	2,825,464	3,424,773
	<b>Total Account</b>	15,232,492	18,756,388	22,668,492	26,871,075
NA: NA means indicator wise separate data were not available					
*Provisional data have been used for 2020					
Multiple accounts for a person may exist in the total number of banking and other accounts					
Data Source: Bangladesh Bank.					

Table 3 shows gradual progress in MFS Account, Agent Banking Account, Number of Deposit A/C (Including Special A/C) over the period of 2017 to 2020. Therefore, considering the overall scenario reflected by the data shown in the four tables above, we can come to a opinion that situation concerning both the financial inclusion and financial services has experienced significant progress in Bangladesh during the period of 2017 to 2020.

This rapid progress in promoting access to finance for unbanked low-income groups has been impacted by the COVID-19 pandemic and consequent effects in all sectors of Bangladesh economy. Due to the lockdown and disruption in both international and domestic trade, many businesses both in the formal and informal sector have become highly vulnerable. It includes both urban and rural enterprises, especially sectors like agriculture, CMSMEs and firms in the service sector. So, the importance of supporting them with recovery support packages is becoming more significant compared to any previous period in recent decades. The government has responded with stimulus packages for both large manufacturers and medium and small scale enterprises which will be delivered through banks and other financial institutions. The government has also extended the coverage of social safety net programs to support the extreme

poor population. These initiatives are also utilizing digital financial services to ensure transparency and efficiency in delivery.

Another important facet for financial inclusion is to ensure the financial literacy for all. As per SDG 4, it is required to ensure financial literacy for all. Inadequate financial literacy is one of the major obstacles in access to finance in Bangladesh. Low level of financial literacy among the rural people has been the main reason for inefficient use of the financial services. Consumers are not well aware of their rights and options. Increased financial literacy can help to overcome these issues. Different segments must be encouraged in this regard through interventions tailored to their age and interests. The digital financial services can be a great resort to make the transactions online even during adverse situation like COVID-19 pandemic where physical visit of financial service providers is discouraged. Such financial literacy on digital financial services may help people to know about online mode of transaction procedures.

Thus, the given context signifies the relevance of NFIS as a comprehensive strategy to accelerate these recovery efforts. The challenge of retaining the success of promoting financial inclusion achieved in recent decades now coincides with the process of macroeconomics recovery from recent crisis. In this context, successful implementation of NFIS will help Bangladesh to overcome the challenges of COVID-19 and stabilize the economy towards its broader goals set earlier.

#### **4. National Financial Inclusion Strategy (NFIS) - An Overview**

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

usage of financial services. NFIS can harness the enabling foundations and drivers identified as critical to achieve Universal Financial Access, and also build on those measures to promote the uptake and use of a broad range of financial services.

## 5. The Rationale for NFIS

Any public or private institution cannot ever do financial inclusion alone, even if it is a regulatory authority. Collaborative, coordinated and coherent efforts and initiatives from all stakeholders are inevitable for sustainable financial inclusion towards inclusive socio-economic development. The commitment and leadership from the decision-making level of the country and the institutions must spearhead these efforts. This is the foremost important lesson learned from Bangladesh's journey of financial inclusion. The experiences have also shown that the right balances between and among innovation, technology, regulation and risk management are indispensable. Innovation is essential; however, if the innovation can't be balanced by facilitating regulation, the major share of outcomes will be at risk to be vaporized. Similarly, appropriate risk management must supplement the usage of technology.

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

For sustaining the inclusion initiatives in the financial landscape, there are still miles to go for widening the access and increasing the usage of women and youth in financial services within Bangladesh .To move ahead from these lessons, finding the right model or approach for the country is the way to ensure the access to financial services for all population segments. The road to financial inclusion varies from country to country, community to community. The ‘one size fits all’ approach will quickly ruin the hard-work and efforts done thus far.

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

- Establishing a coordinating platform at the national level for financial inclusion;
- Integrating biometric ID to formal financial service accounts for simplifying KYC;
- Implementing specific policies and tailored products for women and youth financing;
- Gradually incorporating interoperability between and among all bank and MFS accounts;
- Encouraging partnership between and among banks, insurance companies and MFIs to widen the access and usage of insurance and payments products;
- Enhancing the data analytics capacity and FinTech knowledge across relevant government agencies and regulatory bodies;
- Promoting the sharing of common industry infrastructure through ensuring safety and security by FSPs for reduction of cost to consumers;
- Strengthening the consumer empowerment framework and financial literacy actions;
- Fortifying the corporate governance practices of FSPs and private sector by regulatory bodies;
- Strengthening the risk management structure and practices in FSPs;
- Conducting regular self-assessment of regulatory capacity and the governance level of regulatory bodies.

## 6. National Plans and NFIS

This strategy has been devised by considering the objectives and priorities of the following national level plans and strategies (but not limited to):

- 1) Perspective Plan of Bangladesh 2021-2041
- 2) Perspective Plan of Bangladesh 2010-2021
- 3) Bangladesh Delta Plan 2100
- 4) National Sustainable Development Strategy 2010-2021
- 5) 7<sup>th</sup> Five Year Plan and 8<sup>th</sup> Five Year Plan
- 6) National Women Development Policy 2011
- 7) National Youth Policy 2017
- 8) National Children Policy 2011
- 9) National Social Security Strategy 2015
- 10) National Industry Policy 2016
- 11) National Agricultural Policy 2018
- 12) National Information and Communication Technology Policy 2018
- 13) National Digital Commerce Policy 2018
- 14) Information Security Policy Guideline 2015
- 15) National Blockchain Strategy: Bangladesh 2020
- 16) National Strategy for Artificial Intelligence Bangladesh 2020
- 17) National Internet of Things Strategy Bangladesh 2020

## 7. Impact of NFIS on SDGs

In its journey towards achieving the Millennium Development Goals (MDGs), Bangladesh has already earned the status of a lower middle-income country in 2015. It has already completed many important upfront works for starting the Sustainable Development Goals (SDGs) implementation. It has mapped out responsibilities for Ministries and agencies against each goal and target of the 2030 Agenda. As a part of it, this strategy has aligned the aspects of financial inclusion with relevant goals and targets of SDGs in following manner:

**Table 4: Impact of Financial Inclusion on SDGs Goals and Targets**

<b>Goal</b>	<b>Targets</b>	<b>Impact</b>
	1.1, 1.3, 1.4, 1.5, 1.b	<ul style="list-style-type: none"> <li>➤ Create jobs and support the Government's plan to reduce extreme poverty.</li> <li>➤ Improve reliability and speed of income receipts</li> </ul>
	2.3, 2.4, 2.b, 2.c	<ul style="list-style-type: none"> <li>➤ Improve productivity of agriculture and increasing food and nutritional security through appropriate financing.</li> </ul>
	3.c	<ul style="list-style-type: none"> <li>➤ Improve ability to maintain payments for education, health and utility services.</li> </ul>
	4.1, 4.4, 4.6	<ul style="list-style-type: none"> <li>➤ Ensure financial literacy for all and skill development of women and youth</li> </ul>
	5.1, 5.a	<ul style="list-style-type: none"> <li>➤ Empower women with greater control over personal and commercial finances.</li> </ul>
	6.3, 6.4	<ul style="list-style-type: none"> <li>➤ Catalyzing finance for clean water, sanitation and water efficiency</li> </ul>
	7.2, 7.3, 7.a	<ul style="list-style-type: none"> <li>➤ Catalyzing appropriate financing for renewable energy and energy efficiency.</li> </ul>
	8.1, 8.2, 8.3, 8.4, 8.5, 8.9, 8.10	<ul style="list-style-type: none"> <li>➤ Strengthen financial sector and institutions as well as Improve efficiency of transactions.</li> <li>➤ Support businesses to manage liquidity, access credit, mobilize savings for investment and mitigate economic shocks.</li> </ul>
	9.2, 9.3, 9.4	<ul style="list-style-type: none"> <li>➤ Modernize the financial system and channel banking sector funds to underserved segments</li> <li>➤ Address market failures across credit and insurance markets</li> <li>➤ Facilitate access to capital for startups</li> </ul>
	10.1, 10.2, 10.5, 10.c	<ul style="list-style-type: none"> <li>➤ Promoting inclusive finance</li> </ul>
	11.1, 11.2, 11.3	<ul style="list-style-type: none"> <li>➤ Catalyzing finance for affordable housing, safe transportation and resilient cities.</li> </ul>

<b>Goal</b>	<b>Targets</b>	<b>Impact</b>
	13.1, 13.2, 13.a	<ul style="list-style-type: none"> <li>➢ Improve resilience against environmental vulnerability.</li> <li>➢ Support green financing to improve environmental sustainability</li> </ul>
	16.4, 16.5	<ul style="list-style-type: none"> <li>➢ Combating illicit financing and preventing fund flow for terrorist activities through anti-money laundering.</li> </ul>
	17.14, 17.17, 17.18, 17.19	<ul style="list-style-type: none"> <li>➢ Coordinate, coherent policy through effective partnership for sustainable development</li> <li>➢ Development of high-quality, timely and reliable data disaggregated by income, gender, age, geographic location and other characteristics</li> </ul>

## 8. Financial Service Providing Landscape of Bangladesh

Financial service providers (FSPs) in Bangladesh can be categorized in three segments, in accordance with their degree of regulation:

1. Regulated: The regulated segment includes all regulated institutions, such as Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, and Capital Market Intermediaries, such as Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs).
2. Quasi-Regulated: The quasi-regulated sector includes those institutions that are regulated by any law or government agency but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions that are mostly owned by the Government, such as Bangladesh Post Office (BPO), Bangladesh House Building Finance Corporation (BHBFC), Bangladesh Municipality Development Fund (BMDF), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank, Investment Corporation of Bangladesh, SME Foundation, Social Development Foundation, Bangladesh NGO Foundation, Amar Bari Amar Khamar Project and Palli Sanchay Bank etc., Co-operatives, Non-Governmental Organizations (NGOs) which are not MFIs and discrete government programs.
3. Non-regulated: The informal sector includes private intermediaries, which are completely non-regulated.

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

### **1. Core Regulatory Institutions:**

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

1.1.1. Bangladesh Financial Intelligence Unit (BFIU) is the central agency of Bangladesh responsible for Anti Money Laundering (AML) and Combating Terrorist Financing (CFT) issues.

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

1.3. Bangladesh Securities and Exchange Commission is the regulator of investment companies, asset or fund management companies, merchant banks and other capital market intermediaries.

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

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

**3. Financial Service Providers:** There is a diverse set of institutions for financial service intermediation in Bangladesh and the regulated commercial Banks offer a full range of financial services. The BPO also offers an array of financial services such as savings certificate, postal savings bank, postal life insurance, payments, Electronic Money Transfer Service (EMTS)/Electronic Money Order (EMO), Postal Cash Card (PCC), Nagad, Dak Taka, etc.

**4. Payment Service/Digital Financial Service (DFS) Providers:** In the era of FinTech, Payment Service/Digital Financial Service Providers like Mobile Financial Service (MFS) operators who are associated with banks, Payment Service Providers apart from the banks, Payment System Operators are growing rapidly.

**5. Support Service Providers:** The emergence of Fintech, ICT service providers have been playing a huge role in Bangladesh within the context of financial service providing. There are Payments Technology Company, FinTech Companies, Mobile Network Operators (MNOs) and Internet Service Providers (ISPs) who have huge role in expanding DFS

**6. Financial Markets:** Money Market, Capital Market and FOREX Market comprise the financial market in Bangladesh.

**Table 5: Financial Service Providing Mapping in Bangladesh**

Financial Intermediaries/Financial Service Providers	Financial Services					
	Savings	Credit	Payments	Insurance	Capital Market Instruments	Government Issued Instruments
Banks	☀	☀	☀			☀
NBFIs	☀	☀				
MFIs	☀	☀				
MFS Operators	☀		☀			
Cooperatives	☀	☀				
Insurance Companies				☀		
Bangladesh Post Office	☀		☀	☀		☀
Specialized FSPs		☀				
Capital Market Intermediaries and Investment Banks					☀	
Government Instrument Intermediaries						☀

### Banking Sector of Bangladesh in Financial Inclusion

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

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

- ❖ *Inclusive Monetary Policy:* To expand financial inclusion, BB has gradually made its monetary policy inclusive, both in formulation and content. BB’s monetary policy, which is prepared once in year with biannual review reflecting the stance of monetary management, is

Core Philosophy of BB’s  
Financial Inclusion Initiatives

Sustainable  
Financial  
Inclusion

Strengthening  
of Financial  
Stability

formulated through a wide consultation with relevant stakeholders- both internally and externally to incorporate their views and thoughts. The monetary policy possesses a specific direction for promoting inclusive finance, especially in the area of agricultural finance, CMSME Finance and Green Finance.

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

- Agricultural Finance
  - Providing a comprehensive annual policy for banks and FIs covering more than 110 crops;
  - Refinancing facilities that are worth over BDT 10 billion for sharecroppers, milk production, artificial insemination, and jute production;
  - Offering credit at a lower rate (4%) for maize, pulses, oilseeds and spices, through interest subsidy;
  - Refinance schemes designed for supporting farmers and entrepreneurs involved in the agriculture value chain affected by COVID-19
  - Offering priority for women farmers and concessional rates for tribal farmers, as well as coastal farmers;
  - Promoting area approach, contract farming and revolving crop credit limit system.
- CMSME Finance
  - CMSME credit disbursement of banks and NBFIs must be at least 25% of total disbursement by 2021;
  - Provide at least 15% of CMSME credit to women entrepreneurs by 2021;
  - Disburse refinance schemes designed for supporting CMSMEs impacted by COVID-19
  - Banks & FIs to provide banking & business advisory services;
  - Provide 'Women Entrepreneurs Dedicated Desk/Help Desk' in all banks & FIs;
  - Promote area-approach & cluster-based finance;
  - Create specialized capacity building programs;
  - Provide refinance schemes for CMSME financing worth more than BDT 10 billion.

- Sustainable Finance
  - Sustainable Finance Policy is in place where Green Finance and Sustainable linked finance (Sustainable CMSMEs, Sustainable Agriculture, Socially Responsible Finance) are well addressed;
  - Banks and NBFIs to provide an exhaustive list of 68 green products/projects/initiatives for finance, under 11 categories;
  - Create product development guidelines for banks and NBFIs for new product innovation for sustainable finance;
  - Provide refinancing schemes for green finance through 4 windows, both in local and foreign currency.
- ❖ *Innovative Products/Services:* To promote savings and credit for the segments of population who cannot access banking services in any way, Bangladesh Bank has taken pro-active actions by offering policies and funding support for innovative products/services:
  - Encouraging banks to open No-Frill (10 taka) accounts for farmers and over 12 other categories for the unbanked-unserve segment of population;
  - Providing banking services for physically challenged persons;
  - Providing school banking;
  - Providing banking for Urchin and Street Children;
  - Providing refinancing scheme for No-Frill Account holders;
  - Establishing banking services for residences in the 111 enclaves of Bangladesh.
  - Offering banking services for Third Gender population.
  - Creating a mainstream Corporate Social Responsibilities of banks and FIs for financial inclusion.
- ❖ *Diversifying Service Delivery Channel:* To reach underserved people from remote rural areas, diverse service delivery channels are used through the following initiatives:
  - Banks must establish 50% of their branches in rural areas;
  - Agent banking was initiated in 2013;
  - Online Banking, Internet Banking and App-based banking have been fully pursued;
  - NGO-MFI linkage to banks has been run for loan disbursement & foreign remittance.
- ❖ *Digital Financial Services & FinTech:* From 2010, the country's payment systems enjoyed a transition from manual clearing system to a fully automated clearing system; from manual

payment method in commercial banks to automated payment method through core banking solution; and a shift from cash to card and other payment methods. This actually paved the way of DFS in Bangladesh, which is followed by the initiatives below:

- Automated clearing system of checks, pay-order and bank drafts are in full-scale operation through the Bangladesh Automated Clearing House;
- Electronic Fund Transfer has been implemented, which is widely used in fund transfers such as payroll, foreign and domestic remittances, social security, company dividends, retirement benefits, expense reimbursement, bill payments, corporate payments, government tax payments, social security payments and person-to-person payments;
- National Payment Switch has been installed, which has facilitated the interoperability of ATMs, POS and Internet Banking Fund Transfer;
- Real Time Gross Settlement has been introduced, which now covers 70% of total bank branches - and 100% coverage will be done by 2021;
- E-wallet payment service provider has started its operation, which has been a landmark in the history of DFS in Bangladesh;
- Financial Technology (FinTech), such as QR Code and NFC-based transactions has been allowed by BB to operate;
- All G2P and P2G payments will be automated by 2021;
- Initiative for MFS Interoperability has been initiated;
- BB established ‘Regulatory FinTech Facilitation Office (RFFO)’ in 2019;
- A bank with the help of a MFS operator has started piloting of Digital Credit in 2020.

#### *Revolutionary Initiatives in DFS*

**Mobile Financial Services:** Bangladesh Bank issued guidelines on ‘Mobile Financial Services for Banks’ in September 2011 clearly stating a choice for the bank-led market model. However, Bangladesh Bank also advocated for making mobile operators and MFIs for distribution channel. Mobile financial services (MFS), under a bank-led model, deliver off branch digital financial services especially for the poor and unbanked population segments through mobile phone-based solutions. Basic services delivered by MFS platforms include payment of inward foreign remittances; cash in/out into mobile accounts through agents/bank branches/ATMs/mobile network operator (MNO)

**Agent Banking:** One of the primary impediments to providing financial services to the poor through branches and other bank-based delivery channels is the high costs inherent in these traditional banking methods. By using agent banking points as cash merchants, banks, telecom companies, and other providers can offer services in a commercially viable way by reducing fixed costs and encouraging customers to use the local services more often, thereby providing access to additional revenue sources. Bangladesh Bank has issued Prudential Guidelines for Agent Banking Operation in Bangladesh’ to promote this complementary channel to reach the poor segment of the society, as well as to serve the

outlets, P2B, B2P, G2P, P2G and P2P payments. The MFS agents are the last mile delivery point for the customers. They facilitate customer registration and cash-in/cash-out transactions.

existing bank customers with a range of financial services, especially in geographically dispersed locations.

❖ *Consumer Protection and Financial Literacy:* To make the financial inclusion initiatives sustainable and responsible, BB has taken numerous steps to ensure consumer protection and financial literacy:

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

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

- Established an independent Financial Intelligence Unit named BFIU in 2012, which is a member of Egmont Group;
- Banks, NBFIs, Insurance Companies, MFIs, Capital Market Intermediaries, NGOs/NPOs, Money Changers, Courier Services, Postal Remittance Business have been subject to AML/CFT regulation and supervision;
- Stringent measures have been taken to prevent illicit fund flow through MFS;
- Full alignment of AML/CFT regulations with FATF standards has been made;
- Guidelines on Electronic Know Your Customer (e-KYC) have been issued.

❖ *Fortifying Risk Management:* To prevent the creation of ‘credit bubble’ and to fortify financial stability, in order to make financial inclusion initiatives sustainable, the following key actions have been taken in the context of risk management:

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

**Social Safety Net Services and Payment Systems during Covid-19 Pandemic:** Socio-economic scenario of the world has been badly impacted by the pandemic, COVID-19. To stop the spread of the COVID, similar to many other countries, Government of Bangladesh (GoB) imposed a countrywide lockdown and movement restrictions, except for some essential and emergency services. However, a countrywide lockdown in the containment of the disease not only intruded the spread of COVID but also adversely affected the supply chain of the economy. Marginal people and small entrepreneur faced a grief situation in earning to livelihood. Moreover, payment activities became difficult for the people staying at home. In this backdrop, an easy, low-cost and automated payment system was crucial to restore the financial and payment activities of the economy. Notably, Bangladesh Bank took number of initiatives to increase the access and usage of transparent digital payment services in a safe and secured manner.

Small and micro-merchants were allowed to receive and make business payments using their bank/MFS accounts with necessary adjustments of the payment ecosystem to ensure the supply of foods, medical services, and essential commodities. In addition to this, charges were reduced and daily transaction limits for mobile payments were increased. Contactless transaction limits were raised as well. To keep the export oriented industries active and save the jobs and livelihoods of the workers, the GoB provided soft loans to the factory owners for workers’ salaries. To reach the amount to the end-user, avoiding any third party involvement, the salary

was directly disbursed to the workers' Mobile wallet. In this process, declaring Mobile Financial Services as an emergency service, workers were allowed to open new mobile accounts. In this rally, 2.2 million new mobile accounts were opened registering 3.8 million mobile accounts among 4.5 million workers (of whom most are female) of these industries. Cash-out charges were lowered to 0.8% from 1.85% for these payments. Since marginal occupations were temporarily halted during the lockdown period, the Honorable Prime Minister declared cash assistance for 5 million such families. Bank and Mobile accounts were opened within a very short time and the assistance was disbursed directly to the beneficiaries' bank/mobile account. At the same time, the Automated Clearing House was kept open to ensure interbank cheque clearing, and to settle electronic fund transfers for the payments of emergency services, medical services, and Social Safety Net payments. In the direction of the Bangladesh Bank, all banks and financial institutions developed and implemented 'Critical Service Management' and 'Business Continuity Plan' to deliver critical services together with sufficient liquidity at all Cash Points. During the lockdown amid the pandemic, various payment platforms policy supports, and a mixture of supervision initiatives played a critical role to save the livelihoods of the marginal people as well as the economy by delivering various transfer payments to the accounts of the end-users directly. The precedence of Government fund transfers using various digital platforms created a nationwide trust in digital payment systems. As a result, during the lockdown, usage of e-commerce, internet, and mobile payments significantly increased. Most importantly, the upward trend in the usage of different digital payment platforms is being continued compared to the same before the lockdown. It has added a new dimension in acceptance and adoption in more advanced digital modes of payment and banking which has opened a new horizon of digital and automated financial inclusion. Also, the private sector is placing new proposals to deliver various market-oriented Fintech products and services, which indicates that there are demands in the market for Fintech services. Under such circumstances, it could be concluded that, the digital financial service sector is experiencing a positive development amid the pandemic. Active participation and trust has grown up during the pandemic in digital payment and financial services could help accelerate the economy and make it resilient.

**Foreign Exchange Transactions for IT sector Freelancers:** Bangladesh Bank has formulated a policy framework in 2011 for smooth repatriation of small value service income, IT enabled services in particular. Under the framework, Authorized Dealer (AD) banks can make arrangements with globally recognized Online Payment Gateway Service Providers (OPGSPs) to repatriate income earned by service providers including freelancers. In 2019, USD 10,000 has been allowed to repatriate payment through OPGSPs for each transaction.

International cards can be used to repatriate inward remittances for freelances. AD banks can facilitate to accommodate repatriation facilities through card services, having dual currency units<sup>4</sup>. Eligible amount on account of Exporters' Retention Quota (ERQ) can be credited in foreign currency of the card for meeting bonafide payments including business travels.

Freelancers have been allowed to remit bonafide payments through international cards up to USD 300 in a year<sup>5</sup>. In the meantime, the ICT Division has taken step to recognize the role of freelancers by issuing certificate to them. The limit has been enhanced to USD 500 with payment facilities by way of OPGSPs.

IT services are entitled to have ERQ facilities up to 70 percent of repatriated export receipts<sup>6</sup>. Accordingly, freelancers can retain the same in ERQ accounts maintained in foreign currency. The balances held in ERQ accounts are freely remittable abroad to meet current bonafide needs. Freelancers can obtain international cards against the ERQ accounts. Bonafide business payments can be routed from ERQ accounts through OPGSPs. Total value of IT export services including freelancing through banking channel is USD 265.22 million in 2019-2020 financial year.

<sup>4</sup> Paragraph 23(b)(3), chapter 8 of Guidelines for Foreign Exchange Transactions (GFET), Vol-1.

<sup>5</sup> Paragraph 40, chapter 10 of GFET, Vol-1.

<sup>6</sup> Paragraph 27(c), chapter 13 of GFET, Vol-1.

## Role of Different Institutions in Financial Inclusion

**Microcredit Regulatory Authority (MRA) and Micro Finance Institutions (MFIs):** The microfinance sector has expanded rapidly in Bangladesh, in terms of the number of microfinance NGOs (MF-NGOs), number of branches and active membership. The government established the Microcredit Regulatory Authority (MRA) in 2006 to bring transparency and accountability, and to enhance the efficiency of the MFI operations in the country. With the limited role of formal banks, higher access to financial services especially by the poor in the rural areas has largely been achieved through the deepening of microfinance operations in the country. The microfinance sector is financed by several sources, such as savings collected from the clients, cumulative surplus (profit) of the organization, concessional loan received from sources such as the Palli Karma Sahayak Foundation (PKSF), grants received from national and international donors, and commercial bank borrowing.

Along with a widening network of MFIs, the sector has also witnessed a rising volume of loan disbursement and an increasing number of outstanding borrowers. Evidence shows that the overall volume of microcredit services is relatively high in the rural areas. In the year 2020, the total loan disbursement in microcredit sector was BDT 1302.32 billion. The access to microcredit by poor households, particularly in the rural areas is relatively high in Bangladesh. Women entrepreneurship financing and agricultural financing are largely dependent on MFIs in rural areas. To continue this journey, MRA, the regulatory body has taken following important initiatives- the establishment of ‘Microfinance National Database’ and ‘Digital Mapping of Microfinance Access Points’, ‘Depositors Safety Fund’, Online Monitoring System, ‘Microfinance Credit Information Bureau (MF-CIB)’.

**Insurance Development Authority:** For financial inclusion, in addition to mainstream insurance sector, micro-insurance is also an important area, which is given mostly to the low-income population. In Bangladesh, the vision for micro-insurance will be to extend financial inclusion in the insurance domain so that individual consumers, particularly low-income households who are currently excluded from insurance services, are able to access and use insurance services appropriate to their needs on a sustainable basis. The micro-insurance

products offered by the life insurance companies are life, micro Takaful and endowment insurance. The micro-insurance products offered by the non-life insurance companies include health, flood, crop and livestock. Yet, challenges remain for transforming insurance regulations to make them conducive to micro-insurance, enhance the knowledge and know-how of insurers on micro-insurance, enhance product innovation, adopt new and innovative marketing methods, and create public confidence in the insurers.

An initiative has been taken by Ministry of Expatriates' Welfare and Overseas Employment (MEWOE) with the help of Insurance Development Authority to bring Expatriate workers under insurance coverage which ensures the financial benefit on death or partial disability to the expatriate. In this regard, a contract has been signed between Jiban Bima Corporation and Wage Earners Welfare Board of MEWOE.

Under this scheme, two mutually exclusive insurance products (Plan A and Plan B) were introduced to cover the risk of workers within age range from 18 to 58. Plan- A offers sum assured 200,000 with premium rate BDT 990 and Plan-B offers BDT 500,000 against single premium BDT 2475. In both cases BDT 500 are being subsidized by Wage Earners Welfare Board. Honorable Prime Minister inaugurated this huge initiative on 19 December, 2019. A project with the financing of Asian Development Bank "Weather Index Based Crop Insurance" (WIBCI) has been completed successfully by Sadharan Bima Corporation (SBC) based on which IDRA has taken an initiative to introduce crop insurance on pilot basis in two upazillas of Haor areas.

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

**The Cooperatives:** Cooperatives are social institutions in which members work together to promote socioeconomic development, sharing ownership, and making decisions in a democratic manner. Cooperatives in Bangladesh are monitored by the Department of Cooperatives under the Ministry of Local Government Rural Development and Cooperatives. There are 22 Cooperatives at the national level, 1199 Cooperatives at the central level and 190799 Cooperatives at the primary level operated in Bangladesh. The total membership is more than 11 million (June, 2020; Data source: Website of Department of Cooperatives). Historically, cooperatives have been playing a strong role in promoting financial inclusion, especially among the members, by introducing financial inclusion plans along with their other functions. Bringing the transactions among cooperative members towards financial sector mainstream will be catalyzing for financial inclusion.

**Bangladesh Post Office:** The BPO has been playing an important role in providing access to financial services in rural and remote areas of Bangladesh. With an extremely large and far-reaching network of 9,886 post offices and 8,500 rural outlets, the BPO has been offering remittance services, savings accounts, and life insurance schemes. In 2010, the BPO embarked on developing and providing innovative digital financial services and launched a new Mobile Money Order Service and Postal Cash Card, as well as a mobile financial service at the end of 2012. These new services, which primarily targeted the unbanked population in rural and remote areas, have enjoyed considerable success. At present, the functions of the BPO can be categorized into three segments: (i) postal services; (ii) agency services; and (iii) financial services. The BPO offers an array of financial services such as savings certificate, savings bank, postal life insurance, payments, Electronic Money Transfer Service (EMTS)/Electronic Money Order (EMO), Postal Cash Card (PCC), Nagad, Dak Taka, etc.

## **'Amar Bari Amar Khamar' and Palli-Sanchay Bank:**

**Micro savings instead of Micro credit for poverty alleviation-** from this thought-provoking idea of the Honorable Prime Minister ‘Amar Bari Amar Khamar’ project initiative was taken. Though a customer can get fund through micro credit in a more convenient way than the formal sector, still eradication of poverty through micro credit is not achieved at the expected level due to higher rate of interest, too much dependency only on the loaned fund and above all not making borrower a part of the decision-making process. It has been witnessed that the poor borrowers of micro credit often need to borrow money from another organization or use a part of existing working capital to repay the previous loan which actually does not help in poverty alleviation. In this context, the project ‘Amar Bari Amar Khamar’ was adopted in 2009 to Introduce an effective, sustainable and people-oriented poverty alleviation model instead of microfinance and also to lift the rural poor above the poverty line by involving them in financially inclusive development. In this project the decision to distribute and collect loans for poverty alleviation and the decision to implement the project are taken jointly by the members of the association.



Courtyard Meeting of Amar Bari Amar Khamar Project and Palli Sanchay Bank

With the participation of poor members, a permanent fund is created with government assistance and this fund is used for income generating activities among the members. In addition, the

project becomes useful in creating small entrepreneurs by providing capital through small savings and equivalent government grants.

The process of formation of fund and its utilization are shown in the following diagram:



This participatory approach to develop permanent capital for the rural poor has gained widespread acceptance in the country and brought changes in the attitude of the marginalized people towards institutional micro-savings practices and has created positive changes with significant livelihood opportunities and inclusive development among the society members. Their savings attitude has registered notable growth.

The year-wise savings for the project period are as follows:

<i>Year</i>	<i>Savings amount (Million BDT)</i>
2009-10	30.00
2010-11	210.00
2011-12	1550.00
2012-13	2000.00
2013-14	2044.30
2014-15	2000.00
2015-16	2907.70
2016-17	881.40
2017-18	2045.40
2018-19	2901.20
2019-20	2450.10
2020-21	1640.00 (as of May 21)

Main components of the ‘Amar Bari Amar Khamar’ project include: organizing the poor people under the village society, motivating them to save, providing skill development training, providing low-cost as well as seasonal credit, entrepreneurship development, marketing promotion, ecosystems conservation and digital financial service.

Following the micro-savings philosophy of Honorable Prime Minister, the significant achievements or success of the Amar Bari Amar Khamar’ Project are as follows:

- Total Village Society formed: 1,20,465
- Total rural poor household included: 5.7 million
- Micro Savings by society members: 20.47 billion BDT
- Total fund developed for the society: 71.15 billion BDT
- Total family farm established: 3.24 million
- Total Cumulative investment in family farms: 108.26 billion BDT
- Skill development training provided: 0.24 million members
- Digital financial services to village level: 2.77 million transactions

Another remarkable achievement of the project is its e-financial inclusion. Micro savings collection, distribution of government incentives against savings and other financial activities like distribution and repayment of loan have been carried out under the project with a unique online system by interfacing the project’s online MIS software with the Core Banking Solution of different banks. With this special banking service 5.7 million poor and unbanked beneficiaries of the project have been brought under financial inclusion.

Over the years, the Amar Bari Amar Khamar' Project activities, being implemented in line with the micro-savings philosophy of Honorable Prime Minister Sheikh Hasina, gained accelerated momentum attracting the rural poor and creating a demand to institutionalize as well as continue the system. Therefore, the Government has established Palli Sanchay Bank by enacting **Palli Sanchay Bank Act 2014** which will provide continuation and sustainability of the activities of Amar Bari Amar Khamar' Project.



Institutionalization of the whole issue, has, on the one hand, strengthened financial inclusion, on the other hand, through capital accumulation, it has been possible to provide various financial services to the poor and non-institutional financial service members. The government owns 51% of the shares in this specialized bank established for the poor and the remaining 49% shares are owned by Amar Bari Amar Khamar' societies. Palli Sanchay Bank has already set up branches in 465 Upazilas. Hon'ble Prime Minister Sheikh Hasina officially inaugurated 100 branches of the bank on 22 June 2017 with online real time banking solution. The member funds and liabilities of the societies, formed under the project, are being transferred from the project to the bank in phases. All the associations and funds will be transferred to the bank before the end of the project period in June 2021.

Palli Sanchay Bank offers very easy installment financial services as well as training to enhance skills of the members to increase investment in setting up agro-based farms in rural areas. Since the inception of the project, the members have been involved in various farms such as poultry, cattle rearing, cattle fattening and various other sectors of agriculture to increase production. Moreover, efforts have been taken to develop micro-entrepreneurs in the agro-based sector by providing a very soft credit against only 5 percent interest rate, alongside skills development training.

Digital financial services have been extended at a very lower cost through its mobile banking service "**Palli Len-den**" with a view to making financial services more affordable and reachable to the members. Community-based grain conservation, a special financial service, has earned wide acceptance among the community people. The initiatives to promote integrated family

farming have attracted the member families to invest more for agriculture related farming. As the productivity of the homestead farming depends on the ecosystems and its services, the Bank has initiated special activities known as **Payment for ecosystem Service (PES)** to develop ecosystem-based societies. Amar Bari Amar Khamar Project as well as the Palli Sanchay Bank has been working with a holistic approach focusing on micro savings and other allied components to promote inclusive financial and economic growth in all the rural communities in Bangladesh.

It is now recognized that the Amar Bari Amar Khamar' Project, being implemented in line with the micro-savings philosophy of Honorable Prime Minister, has played a vital role in eradicating rural poverty in last 10 years. A large number of rural marginalized populations have been financially included who had no access in the formal financial services before.

### **ICT Division:**

The initiative of DFS Lab+ has been taken by a2i that attempts to expand and deepen digital financial inclusion. Digital financial products and services have been linked with financial service providers with financial inclusion experts for citizen-centered product and service innovation and introducing them to tools, techniques and design principles necessary to understand, create, evolve, and test possible solutions. Government's payments digitization has been facilitated by a2i which has high potential to accelerate financial inclusion. One of the unique features of DFS Lab+'s strategy is that 'rural e-commerce' is regarded as being key to driving the usage of electronic/online financial products/services (and vice-versa) by people who are currently unbanked and underserved. The a2i acts as catalyst in addressing demand-side challenge, innovative, citizen-centered solutions, behavior change communication and financial literacy for financially excluded citizens in Bangladesh.

**Startup Bangladesh Ltd:** It is the first venture capital company wholly owned by the Government of Bangladesh. The mission of the Company is to develop a strong local startup ecosystem thru venture financing, mentoring, offering investment networks - inter ministerial, developmental partners, angel investors, accelerators and others. Currently the Company is working on a

number of fintech, EdTech, Healthtech and digital commerce projects. The Company is allocated a budget of taka 500 crore with options to coinvest with other similar funds.

**Ministry of Commerce in Expanding E-commerce:** In the context of globalization use of digital technology such as internet, social media, mobile apps, etc. has increased significantly, which has created enormous scope for digital technology-based e-commerce. E-commerce is an electronic or digital commerce where the purchase and sale of goods and services are carried out using digital devices through the Internet and other digital networks. In this context, as part of transforming into a digital Bangladesh, the present government has taken up e-commerce very seriously for creating more employment opportunities in industrial development, export-development, and ICT related sectors. The government is working persistently for encouraging people to e-commerce business, creating e-commerce entrepreneurs, creating more employment opportunities and preparing the ground for e-commerce based business to achieve the target of becoming a developed nation by 2041. "National Digital Commerce Policy-2018" has been formulated with the aim of expanding e-commerce business in Bangladesh and creating more employment opportunities by creating new entrepreneurs in the e-commerce sector. Later, in order to attract foreign investments, the National Digital Commerce Policy 2018 was amended which has been published in the form of "National Digital Commerce (Revised) Policy 2020" in the form of Gazette Notification. The project will initially provide training on e-commerce to 5,000 entrepreneurs. Under this project almost 2450 entrepreneurs have already been trained. About 2000 entrepreneurs are doing e-commerce by creating marketplace. The number of e-commerce (commonly known as F-Commerce) entrepreneurs on Facebook is about 0.2 million. During Covid-19 pandemic, 50,000 jobs were added to e-commerce by combining new and old companies, Tk 3,500 crore e-commerce businesses were made, and the total number of digital transactions is Tk 16,000 crore.

## 9. Implementation Roadmap of NFIS:

As the core national development plan (Five Year Plan) of the country, the duration or timeline for implementation of NFIS will be 5 (five) years which will be started on July 01, 2021 as this year will witness the Golden Jubilee of the Independence of Bangladesh. The implementation

phase of NFIS will end up on June 30, 2026 as this will be the proceeding year of the LDC graduation of Bangladesh.

### 10. Key Base Approaches of NFIS:

In this strategy, two key base approaches have been used to foster its implementation- *Digitization and Innovation*. Digitization democratizes and enhances both efficiency and



inclusion as well as expands inclusion from financial services to social services. Innovation is inevitable for offering services to the people as per their desired quality and affordability with the optimal convenient modality. Innovation can facilitate the journey of Bangladesh towards prosperity by utilizing its 'Demographic Dividend' and 'Density Dividend' at the fullest. Thus, 'Digitization' and 'Innovation' have been marked as the key base approaches for implementing this strategy following the vision of '*Digital Bangladesh*' and '*Innovative Bangladesh*'.

### 11. National Definition of Financial Inclusion

Globally, there is no uniform definition of financial inclusion. In Bangladesh, financial inclusion is not conceived just as an increase in the volume of credit and other financial services; it involves access to, and usage of, a range of quality financial products and services provided by regulated service providers to all segments of the population. This strategy defines financial inclusion for Bangladesh as:

*"Access of individuals and businesses including unserved and underserved to the full range of financial services facilitated with technology provided at affordable cost with quality, ease of access and scope of risk mitigation in responsible and sustainable manner through a regulated, transparent, efficient and competitive financial marketplace."*

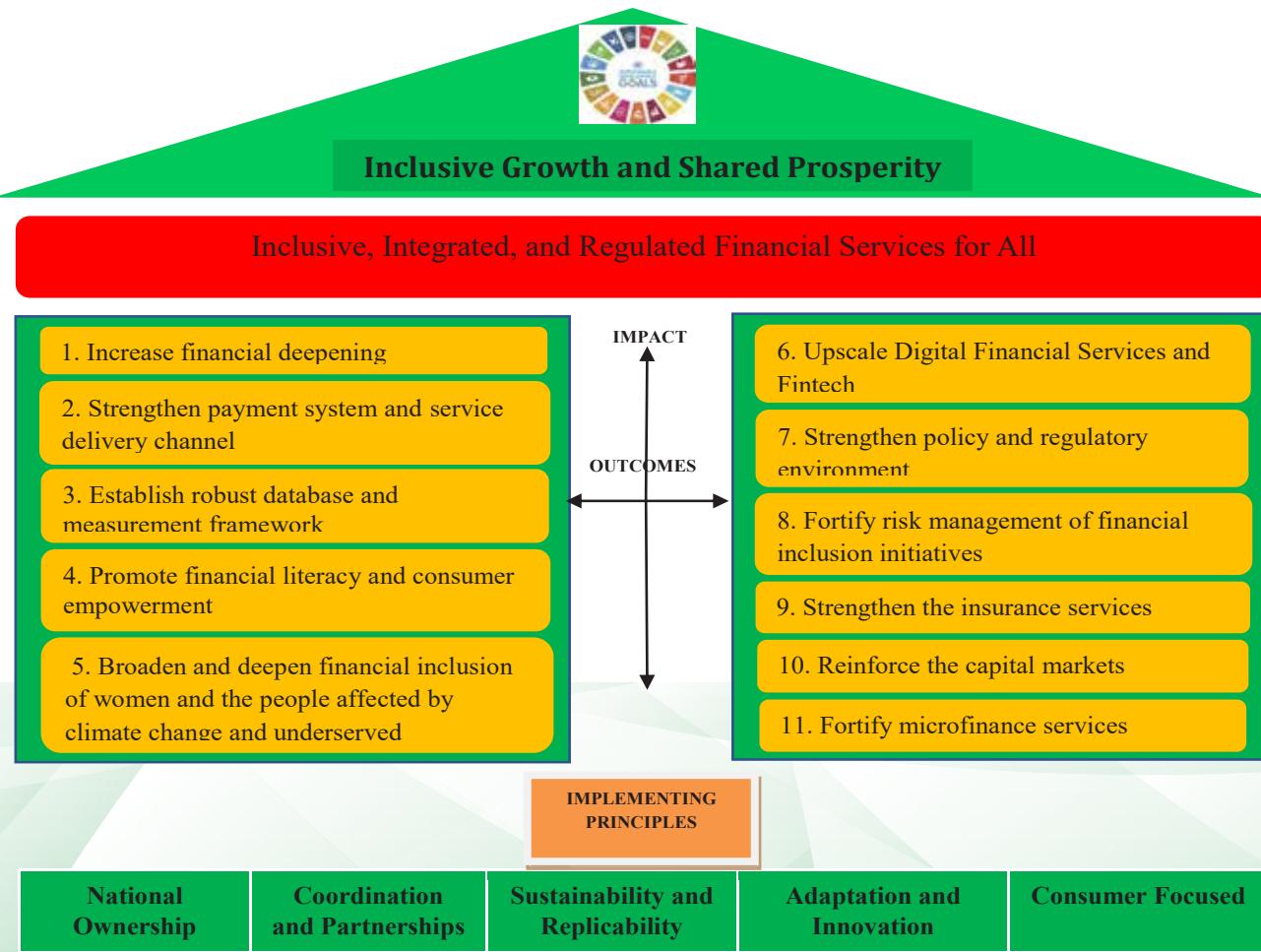
This will be considered as the national definition of financial inclusion for Bangladesh.

## 12. Strategic Vision of NFIS

The fundamental theme of NFIS encompasses two mutually reinforcing aspects: (i) finance for growth and development; and (ii) access to finance for all. In the process, this strategy intends to support more effective monetary policy transmissions and financial sector stability to promote the country's social transformation and achieve the development vision of the Government of Bangladesh. Consequentially, the vision of this strategy stands as:

*'An integrated financial system supportive to rapid and inclusive development of the country's potential sectors, be accessible and be responsive to the needs of the population such that they can regularly use financial products and services to manage their cash flows and needs of livelihoods, and mitigate shocks as needed at individual, household and enterprise levels'*

The strategic vision of NFIS is showcased in its Theory of Change below:



Well integrated and stable financial sector with effective monetary policy transmissions rests on inclusive and integrated financial system where financial services are deepened, financial system is strong and well regulated, and consumers are financially literate and well informed whereby all individuals and businesses including unserved and underserved have access to the full range of financial services through a regulated, transparent, efficient and competitive financial market place that results in population being able to regularly use products and services to manage enterprise and livelihood needs and mitigate shocks leading to inclusive growth and shared prosperity.

### **13. Core Dimensions and Key Considerations of NFIS**

The vision of NFIS will be supplemented by three core dimensions:

- a. All adults have individual, full-fledge, safe and secure regulated financial service account facilitated by concurrent technology;
- b. Each account holder has access to electronic financial service points within reasonable distance having cash deposit, withdrawal, and transfer facilities in a secure environment and at reasonable costs; and
- c. All households and businesses including overseas migrant workers along with their families and Non-Resident Bangladeshis (NRBs) have convenient access, at reasonable costs, to appropriately regulated : (i) a full range of credit and other financial services products; (ii) appropriate deposit and investment products; (iii) a range of insurance (including micro insurance) and risk management products; and (iv) legally protected rights to be offered for appropriate financial products and services by the providers and the right to make informed decisions.

### **Key considerations of NFIS are:**

- building on emerging opportunities and the shared vision of financial inclusion for all;
- adoption evidence-based policies and credible measures that target key constraints;
- replicating existing good practices with a focus on creating a more integrated, efficient and accessible financial sector;
- adapting financial inclusion innovations and new technologies, especially in the digital arena;
- installing a system of providing incentives and reducing risks, and transaction costs;
- balancing both demand and supply side issues around product appropriateness, affordability/transaction costs, and alternative choices;
- confidence and trust;
- coordination and collaboration across policymakers, regulators, service providers and other stakeholders.

### **14. Objectives of NFIS**

- 1) Increase the level of financial inclusion (having at least one regulated financial service account) of all adults to 100 percent by 2025 to be measured by nationally authenticated evaluation framework with a view to moving towards ‘cash-lite society’;
- 2) Ensure the availability of a wide range of financial products and services capable of serving in different segments of the financial market and having capacity to meet multiple needs and demands of various population groups and different enterprises;
- 3) Develop the financial system to assure quality, relevance, and responsiveness of the financial products and services so that these are appropriately designed, priced and tailor-made to fit the specific needs and demands of the users;
- 4) Create digital financial infrastructure including DFS, Fintech, Regtech etc and effective interface using technology between financial products and services as well as delivery channels used by different providers such as banks, nonbank financial institutions, insurance companies, post offices, MFIs and other institutions;

- 5) Expand financial literacy and education supplemented by strong and robust consumer empowerment framework to empower the people and the entrepreneurs to make rational and well-informed financial decisions;
- 6) Create statistical capacity of regulatory bodies to collect and disseminate comprehensive and quality financial inclusion data disaggregated by sex, age, location and other aspects to monitor progress of implementation of this strategy and introduce adjustments, if necessary.
- 7) Transformation of informal sectors of economy to formal ones through financial inclusion.

## 15. Strategic Goals and Targets of NFIS

To translate the vision and objectives of this strategy into a concrete action plan, a set of 12 goals consisting of 69 targets have been marked to drive future developments in financial inclusion. These goals and targets will go in parallel to the ongoing and usual initiatives of public sector and private sector in financial inclusion. Each of these is associated with a subset of specific actions that are grouped by relevance to the public and private sector:

**Table 6: Strategic Goals and Targets of NFIS**

Goals	Targets
1. Increase financial deepening	<ol style="list-style-type: none"> <li>1) Implement e-KYC for all types of bank accounts, MFS accounts and other regulated financial services account</li> <li>2) Revisit the KYC requirement for cottage and micro enterprises, micro-merchant/retails businesses and low-income households.</li> <li>3) Ensure the access of all regulated financial service providers to ‘National ID and Biometric Database’ of Election Commission</li> <li>4) Introduce the framework for ‘socially responsible financing’</li> <li>5) Expand the scope and practice of ‘Cluster’ and ‘Value Chain’ financing.</li> <li>6) Take necessary initiatives for making account opening process as optimally simple and convenient for all</li> <li>7) Develop framework for diversifying financing instruments and financing options for CMSMEs and low-income households</li> <li>8) Take necessary actions to reduce fiscal burden on the usage of financial services for consumers specially in DFS</li> <li>9) Establish Micro-Finance Credit Information Bureau (CIB), Collateral (both movable and immovable) Registry Bureau for</li> </ol>

Goals	Targets
	<p>financial services and upgrade the existing CIB under Bangladesh Bank into full fledged ‘Credit Registry’</p> <ul style="list-style-type: none"> <li>10) Introduce the usage of artificial intelligence and machine learning for credit scoring and monitoring through big data analysis</li> <li>11) Introduce ‘Credit Guarantee Fund’ for CMSME finance, agricultural finance and green finance</li> <li>12) Take necessary initiatives for developing refinancing mechanism for funding ‘Start-ups’</li> <li>13) Make required arrangements for facilitating smooth inward remittance of domestic professionals in Business Process Outsourcing, Freelancing; NRBS/Diaspora and Overseas migrant workers</li> <li>14) Formulate policy framework for Micro-savings</li> <li>15) Explore the feasibility to introduce 'P2P Lending' and 'Crowd Funding'</li> <li>16) Create structure of robust information sharing for convenient client on-boarding</li> </ul>
2. Strengthen payment system and service delivery channel	<ul style="list-style-type: none"> <li>1) Ensure interoperability within all MFS accounts</li> <li>2) Ensure interoperability within all MFS accounts, bank accounts and e-wallets (Digital wallets).</li> <li>3) Ensure the transformation of all branches of all banks into online branches</li> <li>4) Ensure the participation of all banks in interbank Automated Teller Machines (ATM), Point of Sales (POS) and Internet Banking Fund Transfer (IBFT)</li> <li>5) Establish a ‘Payment System Coordination Committee’ consisting of relevant regulatory bodies</li> <li>6) Bring all types of Government payments (P2G and G2P) including social security payments and all types of B2P and P2B payments under electronic financial services account (e.g. through bank account or MFS account or postal account)</li> <li>7) Take necessary initiatives to digitize ‘Micro-Merchant Payments’ and ‘Retail Transport Payment’</li> <li>8) Enhance the scope of MFI linkage for providing banking and MFS</li> <li>9) Enhance the scope of financial service providing by PSPs</li> <li>10) Initiate the formulation of National Payment Act</li> <li>11) Assess the feasibility of establishing payment bank</li> <li>12) Implement ‘Digital Signature’ to ensure security of any</li> </ul>

Goals	Targets
	<p>electronic Transaction</p> <p>13) Prepare framework to conduct regular vulnerability and penetration testing for the payment system</p>
3. Establish robust Data and Measurement framework	<p>1) Conduct a comprehensive country-wide demand side survey to appropriately assess the financial service</p> <p>2) Establish a set of globally comparable national financial inclusion indicators in light of World Bank Findex, IMF Financial Access Survey and G20 Financial Inclusion Indicators</p> <p>3) Ensure the collection of comprehensive and quality financial inclusion data disaggregated by sex, age, location and other aspects</p> <p>4) Create robust and automated Management Information System and dedicated web-portal for NFIS data like SDG Tracker</p> <p>5) Explore the potential ways for using ‘Cloud Solutions’ to store and preserve data by Financial Service Provider and Regulatory Agencies</p> <p>6) Strengthen the capacity of statistical agency for national financial inclusion data</p>
4. Promote Financial Literacy and Consumer Empowerment	<p>1) Formulate Financial Literacy Policy/Strategy by all financial sector regulatory bodies separately</p> <p>2) Formulate Consumer Protection Framework and Grievance Redressal System by all financial sector regulatory bodies separately</p> <p>3) All regulated financial service provider will have annual program on financial literacy which will be monitored by respective regulatory body</p> <p>4) Take necessary initiatives with Ministry of Education to incorporate ‘Financial Literacy’ at all levels of education (Primary, Secondary, Tertiary)</p> <p>5) Assess the feasibility of introducing consumer protection mechanism similar to ‘Deposit Insurance Scheme’ for banks</p>
5. Broaden and Deepen Financial Inclusion of Women, Population affected by Climate Change	<p>1) Develop separate policy/strategy and undertake special programs by all regulatory bodies of financial sector on women financial inclusion covering the issues below:</p> <p>a) Dedicated focus on catering the need of financial services (saving, credit, payment, investment and insurance) of women individuals and entrepreneurs from both rural and urban areas</p> <p>b) Convenient service delivery channel for women</p> <p>c) Separate focus for women in DFS</p>

Goals	Targets
and other underserved segment of population and senior citizen	<p>2) Formulate target based specific policies and initiate dedicated programs by IDRA, BSEC and MRA as well as relevant government agencies on Financial Inclusion and Climate Change along with the reinforcing BB's initiatives</p> <p>3) Formulate target based specific policies and initiate dedicated programs by all regulatory bodies and relevant government agencies on following aspects of financial inclusion separately:</p> <ul style="list-style-type: none"> <li>a) Financial Inclusion for Youth</li> <li>b) Financial Inclusion for Physically Challenged People</li> <li>c) Financial Inclusion for Third Gender</li> <li>d) Financial Inclusion for Children including the ones with special need</li> <li>e) Financial Inclusion for Old Age and Retired Persons</li> <li>f) Financial Inclusion for Bangladeshi Overseas Migrant Workers/Diaspora/Non-Resident Bangladeshi (NRBs)</li> <li>g) Financial Inclusion for extremely destitute and underprivileged people like tea labors, floating communities, urban slum dwellers, poor people in remote hilly, forest, coastal, haor, char with difficult terrain and similar areas; former enclave areas, sparsely populated areas and relatively underdeveloped areas with poor infrastructure</li> </ul>
6. Upscale Digital Financial Services and Fintech	<p>1) Formulate a DFS strategy to mainstream digital transformation and innovation in financial services offering</p> <p>2) Ensure the usage of DFS in all types of utility services (water, gas, electricity, internet, health, education and others) payments</p> <p>3) Implement the financial sector related aspects of 'National Blockchain Strategy: Bangladesh', 'National Strategy for Artificial Intelligence Bangladesh' and 'National Internet of Things Strategy Bangladesh'.</p> <p>4) Explore the potential modalities to introduce credit service and full deposit service for MFS account holders</p> <p>5) Explore the potential solutions to provide all banking services at full scale in outlet level under agent banking</p> <p>6) Assess the potential scope of application of AI, Fintech, Regtech, Supertech, Insurtech and other emerging technological trends in financial services</p>
7. Strengthen the policy and regulatory	<p>1) Coordinate across Ministries, Regulatory Bodies and relevant government agencies for implementation of NFIS</p> <p>2) Establish the practice of evidence-based policy making</p>

Goals	Targets
environment	<ul style="list-style-type: none"> <li>3) Reinforce the coordination and coherent effort to refrain illegal financial services and eliminate the adverse impacts of Shadow Banking</li> <li>4) Explore the potential ways to introduce ‘Regulatory Sandbox’</li> <li>5) Devise appropriate ‘incentive structure’ by regulatory bodies for financial service providers to penetrate low-income markets</li> <li>6) Strengthen the capacity of regulatory agencies on data-driven policy analysis and emerging technologies like Fintech, Regtech, Suptech, Insurtech, Artificial Intelligence, DLT, Machine Learning, Augmented Reality, Cyber Security</li> </ul>
8. Fortify risk management of financial inclusion initiatives	<ul style="list-style-type: none"> <li>1) Ensure proper application of the core principles (set by Bank for International Settlement) for effective banking supervision to the regulation and supervision of institutions relevant to financial inclusion</li> <li>2) Take necessary initiatives to balance the Anti-Money Laundering (AML) and Combating Terrorist Financing (CFT) regulations and innovation in financial inclusion drives through ensuring Financial Integrity for reducing the practice of ‘De-risking’</li> <li>3) Develop framework for assessing risk during financial product development</li> <li>4) Develop robust regulatory and supervisory apparatus to protect data privacy and security including cyber security and establish a coordinated platform among regulatory agencies, task forces and law enforcing agencies with a view to safeguarding and executing forensic tasks against cyber threat.</li> </ul>
9. Strengthen the insurance services	<ul style="list-style-type: none"> <li>1) Develop policy framework on micro-insurance by keeping provision of using MFI linkage to reach beneficiaries for uplifting the share of micro-insurance as 5% of GDP</li> <li>2) Introduce ‘Bancassurance’ to diversify service opportunity to consumers</li> <li>3) Introduce innovative insurance products for marginal people, small business and agriculture like weather-based crop insurance, livestock insurance, fisheries insurance with GPS tracking, health insurance for low income people, autistic people and pension scheme for old age retired people</li> <li>4) Develop policy framework on insurance for expatriate workers</li> <li>5) Develop framework for automation of insurance sector</li> </ul>

Goals	Targets
10. Reinforce the capital market services	<ul style="list-style-type: none"> <li>1) Deepen the capital market to expand the participation of individuals and businesses and introduce a wider range of financial instruments for investment</li> <li>2) Expand the scope of usage alternatives investments like venture capital fund, impact fund, other AIF, SPV for CMSME finance, agricultural finance and green finance at remote rural level through appropriate capital market instruments</li> <li>3) Develop bond market to facilitate risk-averse retail and small investors</li> </ul>
11. Fortify Micro finance services	<ul style="list-style-type: none"> <li>1) Increase the access to diverse source of fund by MFIs</li> <li>2) Initiate ‘digitization’ of relatively small-scale MFIs to increase their efficiency</li> </ul>
12. Strengthen Quasi-Regulated Financial Service Providers like BPO, BHBFC, BMDF, PKSF, Samabay Bank, SME Foundation, Social Development Foundation, Bangladesh NGO Foundation, Amar Bari Amar Khamar Project and Palli Sanchay Bank, ICB and other relevant government agencies to facilitate their financial services by complying applicable regulatory requirements.	

## 16. Roles of Financial Service Providers in implementing NFIS

Financial Service Providers will be the key in implementing this strategy. Thus, all types of FSPs (banks, FIs, insurance, capital market intermediaries, MFIs, MFS operators, PSPs) are expected to perform the following roles (but not limited to):

1. Adopt customer-centric approach to design products tailored for underserved markets;
2. Enable offline card technology to deal with connectivity challenges, especially in rural areas;
3. Connect existing distribution channels to a broader suite of financial services. For example, partnerships can allow bank deposits or insurance products to be distributed directly through MFS or MFIs such that banks or insurers earn through intermediation whereas MFS/MFIs earn fees;
4. Capitalise on No Frill products to expand coverage and rapidly upstream customers onto unrestricted accounts;

5. Capitalise on new infrastructure and technology to reinforce the product development, service channelling and risk management;
6. Build institutional framework for establishing responsible and ethical service providing practices;
7. Design tailor-made credit products for CMSMEs and low-income households;
8. Undertake persistent financial literacy programs for women, youth, children and underserved segment of population specially in urban marginal economic segment and rural remote areas;
9. Work closely with regulatory and government authorities to build common industry infrastructures and Open-Application Programming Interfaces;
10. Proper collaboration with related service provider for financial inclusion like MNOs, ISPs; and
11. Engage Non-Governmental Organizations (NGOs) and Civil Service Organizations (CSOs) in promoting financial literacy.

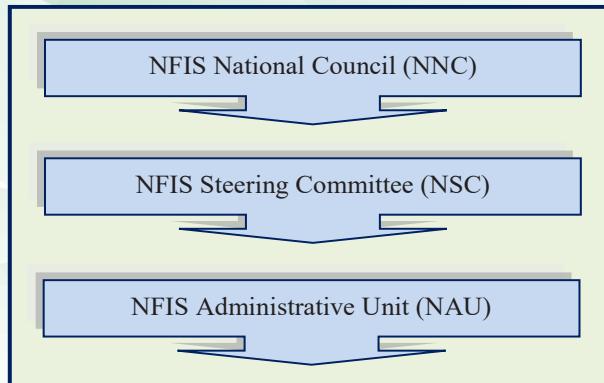
## 17. International Cooperation in implementing NFIS

International development partners act as the catalysts to generate synergy on the initiatives from public and private sectors. In this light, this strategy has incorporated following roles to be played by International development partners to foster financial inclusion in Bangladesh:

1. Partnering with Policy makers and Regulators in the field of payment systems, service delivery channel, blended financial product, DFS and cyber security, regulatory capacity building and environment, research and innovation;
2. Working with Financial Service Providers in the field of developing customer-centric and data driven financial products and services, resource mobilisation for risk mitigation, technical support to enhance and maintain financial infrastructure, broaden and deepen women financial inclusion and supply side capacity development;
3. Collaborating with Non-Governmental Organizations (NGOs) and Civil Service Organizations (CSOs) in promoting financial literacy.

## 18. Coordination Structure of NFIS

The comprehensive nature of NFIS requires that its implementation involve multiple stakeholders covering both public and private sectors along with a well-defined coordination structure to ensure synergies and timely achievement of the targets. It is imperative, therefore, for the



**Figure 2: NFIS Coordination Structure**

NFIS, a national coordinating framework needs to be installed covering relevant institutes to ensure effective coordination across all parties and achieve the stipulated targets in an efficient and effective manner. The coordination framework and the associated structure is the core elements of this strategy and a tiered structure for coordination seem suitable. In this light, the coordination structure will have three tiers:

a) **NFIS National Council (NNC)**: It is the highest strategic authority for implementation of NFIS and moving the national agenda for financial inclusion in Bangladesh. The NNC will provide the vision, strategic direction and required guidance and oversight in implementing the financial inclusion agenda. The NNC will be chaired by the Minister, Ministry of Finance.

*The structure of the NNC will be as follows:*

1. Minister, Ministry of Finance	- Chair
2. Minister, Ministry of Planning	-Member
3. Minister, Ministry of Law	-Member
4. Minister, Ministry of Agriculture	-Member
5. Minister, Ministry of Women & Children Affairs	-Member
6. Minister, Ministry of Commerce	-Member
7. Minister, Ministry of Industry	-Member
8. Minister, Ministry of Social Welfare	-Member
9. Minister, Ministry of LGRD and Co-operatives	-Member
10. Minister, Ministry of Labor and Employment	-Member
11. Minister, Ministry of Expatriates' Welfare & Overseas Employment	-Member
12. Minister, Ministry of Posts, Telecommunications and Information Technology	-Member

13. Minister, ICT Division, Ministry of Posts, Telecommunications and Information Technology	-Member
14. Minister, Ministry of Primary & Mass Education	-Member
15. Minister, Ministry of Education	-Member
16. Minister, Ministry of Youth and Sports	-Member
17. Minister, Ministry of Health and Family Planning	-Member
18. Cabinet Secretary	-Member
19. Principle Secretary to Honorable Prime Minister	-Member
20. Chief Coordinator on SDGs Affairs of Prime Minister's Office	-Member
21. Governor, Bangladesh Bank	-Member
22. Secretary, Financial Institutions Division, Ministry of Finance	-Member
23. President, Federation of Bangladesh Chambers of Commerce & Industries	-Member
24. President, Bangladesh Women Chamber of Commerce and Industry	-Member
25. Chairman, Association of Bankers Bangladesh	-Member
26. Chairman, Financial Institutions' Promoters' Association (FIPA)	-Member
27. Chairman, Bangladesh Association of Software and Information Systems	-Member
28. Representative, Local Consultative Group in Bangladesh	-Member
29. Deputy Governor, Bangladesh Bank	-Member Secretary

*The Terms of Reference (ToR) of NNC will be as follows:*

1. Approve a time bound target wise action plan based on the vision, core dimensions, objectives, strategic goals and targets of this strategy and review that plan annually.
2. Approve the financing strategy for implementing NFIS and provide directives to concerned agencies for allocation of resources.
3. Approve the Monitoring and Evaluation (M&E) framework of NFIS.
4. Approve a set of globally comparable national financial inclusion indicators as part of the M&E framework
5. Review this strategy in biennially and approve any modification, if needed.
6. Evaluate the progress of implementation of this strategy in annual basis.
7. Enable the environment of policy dialogue within public sector and private sector.
8. Provide guidance and leadership in policy, institutional, legal and other reforms necessary to realize the financial inclusion objectives and goals.
9. Approve appropriate coordination mechanisms at all levels and provide guidance for aligning the financial inclusion process with other processes.

10. Approve any change(s) in the formation of NFIS Steering Committee (NSC).
11. Conduct meeting of the NNC at least twice in a year.
12. The council can co-opt member anytime deem necessary.
13. Perform any other function as needed to achieve the financial inclusion goals including advising the Government on the best way forward.

**b) NFIS Steering Committee (NSC):** This committee will have the overall responsibility of implementing the NFIS- B following the guidance of the NNC. The NSC will be responsible for ensuring coordination, effectiveness and quality control in all activities under the financial inclusion agenda. The NSC will be chaired by the Governor, Bangladesh Bank. Any change(s) in the ToR or structure of NSC has to be approved by NNC.

*The structure of the NSC will be as follows:*

1. Governor, Bangladesh Bank	- Chair
2. Secretary, Financial Institutions Division, Ministry of Finance	-Member
3. Secretary, Finance Division, Ministry of Finance	-Member
4. Secretary, Economic Relations Division, Ministry of Finance	-Member
5. Secretary, Internal Resources Division, Ministry of Finance	-Member
6. Member, General Economic Division, Ministry of Planning	-Member
7. Secretary, Ministry of Agriculture	-Member
8. Secretary, Ministry of Women & Children Affairs	-Member
9. Secretary, Ministry of Commerce	-Member
10. Secretary, Ministry of Industry	-Member
11. Secretary, Ministry of Social Welfare	-Member
12. Secretary, Local Government Division, Ministry of LGRD and Co-operatives	-Member
13. Secretary, Rural Development and Co-operatives Division, Ministry of LGRD and Co-operatives	-Member
14. Secretary, Ministry of Expatriates' Welfare & Overseas Employment	-Member
15. Secretary, Ministry of Labor and Employment	-Member
16. Secretary, ICT Division, Ministry of Posts, Telecommunications and Information Technology	-Member
17. Secretary, PTD, Ministry of Posts, Telecommunications and Information Technology	-Member
18. Secretary, Ministry of Primary & Mass Education	-Member
19. Secretary, Secondary and Higher Education Division, Ministry of Education	-Member
20. Secretary, Health Services Division,	-Member

Ministry of Health and Family Planning	-Member
21. Secretary, Medical Education & Family Welfare Division, Ministry of Health and Family Planning	-Member
22. Secretary, Ministry of Youth and Sports	-Member
23. Secretary, Bangladesh Election Commission	-Member
24. Chairman, Insurance Development and Regulatory Authority	-Member
25. Chairman, Bangladesh Securities and Exchange Commission	-Member
26. Executive Vice Chairman, Microcredit Regulatory Authority	-Member
27. Chairman, Bangladesh Telecommunication Regulatory Commission	-Member
28. Chairman, Bangladesh Investment Development Authority	-Member
29. Controller General of Accounts, Office of the Comptroller and Auditor General of Bangladesh	-Member
30. Director General, NIDW, Bangladesh Election Commission	-Member
31. Director General, Department of Cooperatives	-Member
32. Director General, Bangladesh Post Office	-Member
33. Chairman, Association of Bankers Bangladesh	-Member
34. Chairman, Bangladesh Leasing and Finance Companies Association	-Member
35. President, Association of Mobile Telecom Operators of Bangladesh	-Member
36. President, Bangladesh Employers' Federation	-Member
37. Director General, Bangladesh Institute of Development Studies	-Member
38. Director General, Bangladesh Institute of Bank Management	-Member
39. Executive President, Bangladesh Institution of Capital Market	-Member
40. Director, Bangladesh Insurance Academy	-Member
41. Executive Director, Institute for Inclusive Finance and Development	-Member
42. Executive Director, NFIS Administrative Unit, Bangladesh Bank	-Member Secretary

*The ToR of the NSC will be as follows:*

1. Ensure coordination and timely undertaking of the activities of NFIS National Secretariat (discussed below), review progress of implementation, and suggest ways to overcome critical obstacles and exploit opportunities;
2. Provide guidance to the National Secretariat on issues related to financial inclusion related activities;
3. Suggest modalities for inter- and intra-institutional collaboration and cooperation in both public and private sectors;
4. Indicate priorities and guidelines for preparing detailed action plan and required resources for implementing the financial inclusion agenda;

5. Ensure that a properly functional NFIS Administrative Unit is in place with capacity to efficiently perform its roles and responsibilities; and
6. Review progress of implementation and finalize recommendations for consideration of the NNC at least three times a year.
7. The committee can co-opt member anytime deem necessary.
8. Perform any other function as guided by the NNC.

c) **NFIS Administrative Unit (NAU):** This unit will be established at Bangladesh Bank and responsible to perform all operational, administrative, technical research and secretarial activities for the implementation of NFIS. The NAU will provide required technical, administrative and research support to NNC and NSC. This will work as the statistical agency for financial inclusion in Bangladesh. NAU will collect data, maintain MIS and prepare M&E reports for NNC and NSC as well as relevant government agencies. NAU will be responsible to operationalize the comprehensive demand side survey upon the approval from NNC and NSC. NAU will also establish a permanent mechanism to coordinate with the regulatory agencies and other stakeholders.

NAU will be a separate and dedicated department of Bangladesh Bank with a dedicated Executive Director and at least one General Manager. The detailed structure and Terms of Reference of NAU will be approved by the Head of NSC and the Governor, Bangladesh Bank. The human resources in NAU will be provided by Bangladesh Bank. The operational and administrative budget and expenditures will be allocated by Bangladesh Bank.

If necessary, NAU will form technical committees (TCs) on important focus areas relating to the financial inclusion agenda to provide technical and professional support in performing its responsibilities. These TCs will propose, based on in-depth analysis, detailed implementation plans on specific issues considering technical and other implications for consideration towards achieving specific NFIS objectives.

## 19. Implementation Structure of NFIS

For implementation of NFIS, the line ministry/division will be *Financial Institutions Division, Ministry of Finance* and the key implementing agency will be *Bangladesh Bank*.

- a) The roles of FID, MoF for NFIS implementation will be as follows:
  1. This division will coordinate the inter-ministerial activities regarding the NFIS with the support from NAU
  2. It will collect periodic reports on the progress of NFIS from NAU
  3. It will submit periodic reports on the progress of NFIS to the NNC
  4. It will coordinate the activities of development partners regarding the NFIS with the support from NAU
- b) The roles of Bangladesh Bank for NFIS implementation will be as follows:
  1. The structure and the Terms of Reference of NAU will be decided by the Governor, Bangladesh Bank
  2. All administrative and operational approvals of NAU will be pursued by Governor, Bangladesh Bank;
  3. Bangladesh Bank will provide operational, administrative and secretarial resources (human resources, logistics and budget) of NAU;
  4. Bangladesh Bank will be responsible for institutional level coordination within public and private sector for implementation of NFIS;
  5. Bangladesh Bank will prepare a draft monitoring and evaluation framework along with resources plan for implementation of NFIS which will be placed in the first meeting of NNC for approval.

## 20. Monitoring and Evaluation Framework of NFIS

Bangladesh Bank will prepare a draft time bound target wise action plan based on the vision, core dimensions, objectives, strategic goals and targets of this strategy along with a Monitoring and Evaluation (M&E) framework as well as a Financing Strategy which will be placed in the first meeting of NNC for approval.

The M&E framework will cover the minimum following aspects:

1. NAU will send progress report of this strategy to the Minister, Ministry of Finance through FID on quarterly basis. The reports have to be placed before the Finance Minister within 30 days after the end of each quarter.
2. NAU will submit progress report of this strategy to the Governor, Bangladesh on monthly basis. The reports have to be placed to the Governor within 10 days after the end of each month.
3. NAU will submit progress report of this strategy to the NNC through FID bi-annually. The reports have to be placed to the NNC within 45 days after the end of each six months.
4. NAU will upload a monthly progress in its own website of NFIS within 15 days after the end of each month.
5. NAU will have a separate website and web-based monitoring and evaluation tracker.

## 21. Conclusion:

Bangladesh's financial system is relatively strong and stable with continuing rapid growth in financial resources, deposit liabilities and loans over the last few decades. Although Bangladesh's financial architecture started to develop after independence within the public sector domain, new generations of private banks and financial institutions now dominate the financial sector landscape. In edge of this transformation, however, the lessons have been learned. Financial Inclusion always leads to stable, inclusive and sustainable financial system, which always serves the financial needs of all segments of the population for their economic empowerment that instigates social stability. The journey has not been smooth so far for Bangladesh. The government, the regulatory body has always been, still is and will be committed to retain and uplift the confidence of the consumers within the financial sector. The financial sector does not only deal with the money and finance, but also the trust of the people at large. So, the foremost priority of Bangladesh in its financial inclusion journey has always been to gain the confidence and trust of the people, and it will always be so.

## Annex-1: Development Process of NFIS

### 1. Chronological Milestones of NFIS Development:

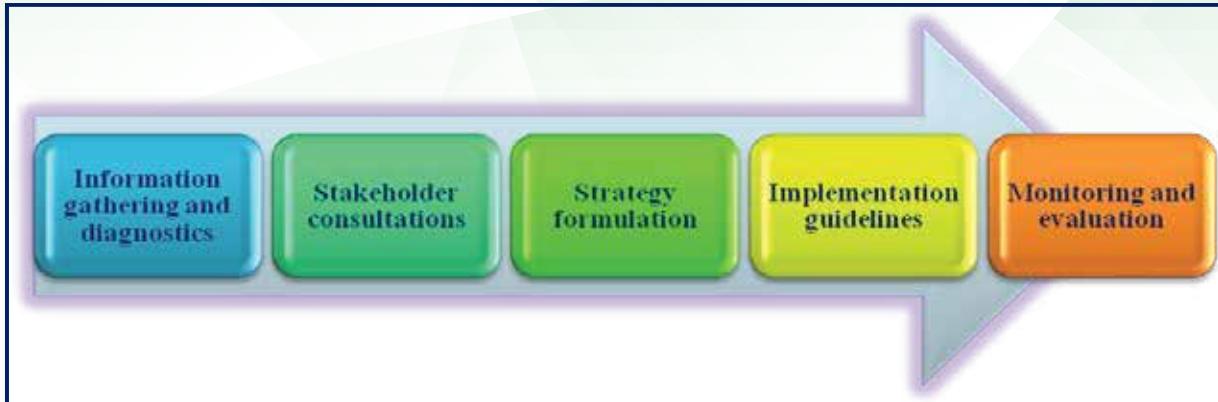
Bangladesh is a member of Alliance for Financial Inclusion (AFI), a global policy leadership alliance to empower policymakers and regulators for increasing access to quality financial services for the poorest populations. Bangladesh being an active member of this alliance signed the Maya Declaration in 2012 and committed to develop its 'National Financial Inclusion Strategy (NFIS) for Bangladesh' in 2014. As a signatory to the Maya Declaration, Bangladesh Bank took the primary initiative of developing a National Financial Inclusion Strategy (NFIS) in 2014. Following that, Bangladesh Bank discussed this issue with Financial Institutions Division, Ministry of Finance (FID, MoF) and took the following steps chronologically:

Time	Initiative
January 2015	The Government of Bangladesh (GoB) and the Government of United Kingdom signed a Memorandum of Understanding for the 'Business Finance for the Poor in Bangladesh (BFP-B)' project and kept the provision of NFIS under that project.
April 2015	The Government of Bangladesh established a high-level inter-ministerial Policy Advisory Committee (PAC), including relevant Government agencies and private sector associations, to enable a coordinated approach to the development of NFIS. The committee chaired by Secretary, FID, MoF decided to prepare an evidence-based report which will act as foundation of NFIS.
February 2016	The process for NFIS report formally was launched at a widely attended kick-off meeting involving more than 200 senior stakeholders from government agencies, ministries, regulators, financial service providers and private sectors.
May 2016	Initial consultations on NFIS design and process roadmap were done by PAC in May 2016 and by senior government officials.
October 2016 - August 2017	5 sub-sector studies on were conducted.
September 2017	Compiling all sub-sector studies first draft of NFIS report was developed
October 2017	First draft of NFIS report was consulted with relevant high level Government

Time	Initiative
	policy makers as a kick-off to series of consultations.
<b>November 2017</b>	Consultation with Microfinance sector was held.
	Consultation with the Insurance sector was held.
<b>April 2018</b>	Consultation with the Digital Financial Service Providers was conducted.
	4 Regional consultations were held in Rangpur, Jashore, Chattogram and Sylhet.
<b>May 2018</b>	Consultation with the Banking sector was held.
<b>June 2018</b>	Consultation with development partners was held.
	Consultation with mid-level government officials was held.
<b>August 2018</b>	A national level consultation workshop on NFIS was held in presence of Honourable Finance Minister along with high level officials from concerned ministries, government institutions, development partners, banks and non-bank financial institutions, insurance and microfinance organizations, key business associations, research and academic institutions, MFS service providers.
<b>December 2018</b>	Submission of the final draft of NFIS report to PAC for approval and the report was approved
<b>January 2019</b>	PAC sent NFIS report to Bangladesh Bank for final review.
<b>March -April 2019</b>	The report was reviewed by the departments of Bangladesh Bank related to financial inclusion.
<b>May 2019</b>	The reviewed report was submitted to FID, MoF by Bangladesh Bank
<b>June &amp; November 2019</b>	Two consultation meetings with all relevant ministries and government agencies
<b>April 2020</b>	Finalizing the Action Plan (Implementation Plan, Resource Plan, Monitoring and Evaluation Framework) for NFIS
<b>August 2020</b>	Finalizing the Bangla version of both NFIS and the Action Plan
<b>September 2020</b>	FID, MoF submitted the report along with Draft Strategy into the Cabinet Division.
<b>November 2020</b>	NFIS was presented in the Cabinet. The Cabinet instructed to resubmit after amendment.
<b>May 2021</b>	The Cabinet approved the NFIS.

## **2. NFIS Development Process:**

The NFIS has been prepared as a comprehensive document using a broad consultative process. The process has involved participation of relevant stakeholders in identifying ways to



systematically increase the level of financial inclusion in the country. Furthermore, the financial inclusion has been conceptualised as interlinked with financial stability, integrity, market conduct, and capability of the consumers. The process included framework development for prioritising actions, including identifying key areas for targeting financial inclusion:

### **3. Core Aspects of NFIS Development Process:**

The development process of NFIS has been rolled over with following core elements:

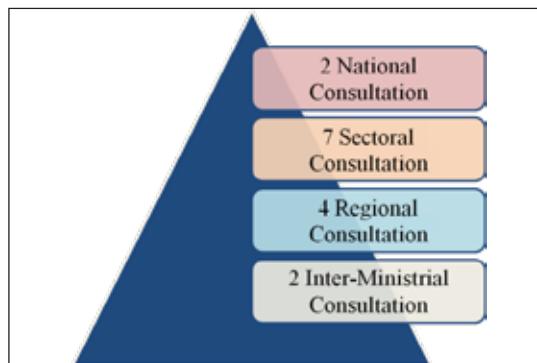
1. Five sub-sector studies have been conducted separately to propel the diagnostic study process:



2. Five cross-cutting issues have been focused to enrich the strategy in context of social cohesion:



3. A rigorous series of 15 consultations have been conducted to assess the needs and the expectations of diverse stakeholders from NFIS:



## Annex-2: Financial Inclusion-Global Practices and Country Diagnostics

### 1. NFIS-Global Practice

NFIS has gained a great deal of footing in recent years and are becoming an increasingly common policy approach in many countries. This surge in interest is also due to better available data on the acuteness of the financial exclusion problem and a better understanding of the power of strategic approaches to achieve financial inclusion objectives. Policymakers' overwhelming confidence in national strategies as a policy tool is demonstrated even more clearly by the growing number of countries that have already formulated one or are in the process of doing so. It is not surprising that national financial inclusion strategies have gained footing so quickly, since the logic appears simple: greater financial inclusion promises more inclusive growth and development, while national strategies have the potential to accelerate financial inclusion. The growing number of national financial inclusion strategies across all regions shows the influence of knowledge and peer learning on strategy development. However, it is important to note that practices tend to change over time based on how much knowledge is shared through mechanisms such as peer learning, and the extent to which this knowledge is applied in the strategy formulation process.

No. of countries having NFIS- 38

No. of countries addressing FI in National Financial Sector Strategies- 12

No. of countries having FI Laws- 2

Addressing financial inclusion at national policy level is done at global level in three alternative approaches:

1. Formulating National Financial Inclusion Strategy;
2. Ingraining Financial Inclusion in National Financial Sector Strategy
3. Formulating Financial Inclusion Law.

## 2. Country Diagnostics of Bangladesh

Finance is a powerful tool of economic growth, especially in a resource scarce developing country like Bangladesh. Access to finance for the poor is essential to promote inclusive economic growth and to eradicate poverty in the country. Financial services cover a host of transactions, including credit, savings, payment, and insurance. Financial service providing is the process by which finance is mobilized and used in the economy.

A developed inclusive financial system not only expedites the process of resource mobilization and use but also offers affordable financial services to all. It creates employment opportunities, ensures economic and financial stability through reducing vulnerability, and contributes to poverty reduction.

*Urbanization- 37%*



*Industrialization- 35.4% of GDP*



*Young Demography (15-34 Y) - 45%*



*Mobile User-170 m,  
Internet User- 112 m*



**Figure 3: From a low-income agrarian society at its birth in 1971, Bangladesh is now a lower middle-income country of 170 million people who are in the midst of prospective transitions.**

Accesses to a well-functioning financial system can economically and socially empower individuals, in particular the poor people, allowing them to better integrate into the economy and actively contribute to development. In an inclusive financial system, no segment of the population remains excluded from accessing financial services.

Development policies in Bangladesh highlight that access to basic financial products and services makes a substantial positive difference in the lives and livelihoods of all the people, especially the poor and disadvantaged sections in society. As a policy, financial inclusion is recognized to have significant potential for improving the well-being for all, and especially for the participants in unserved and under-served financial markets who belong to the poor and marginalized groups; CMSMEs; small and marginal farm households; participants in informal sector activities; youth and women belonging to poor households; indigenous people; persons with disabilities; and other disadvantaged groups. Moreover, it is recognized that financial inclusion contributes to financial growth and stability and promotes rapid and inclusive growth. Being both pro-growth and pro-poor, financial inclusion has been taken as an important policy agenda in Bangladesh to reduce poverty and inequality and promote shared prosperity and social cohesion. It is strongly recognized that financial exclusion, especially of the poor and low-income segments in society, makes these disadvantaged groups to fall back on informal markets, making them vulnerable to financial distress, unsustainable debts, and poverty.

For more than a decade, Bangladesh has adopted different measures to expand inclusive finance through financial institutions and digital networks. In Bangladesh, financial inclusion is not conceived merely to increase the volume of credit and other financial services; it involves access to, and usage of, a range of quality financial products and services provided by formal service providers to all segments of the population. Financial inclusion for Bangladesh is thus a facilitating driver for economic development that is associated with both financial depth and efficiency. In Bangladesh, financial inclusion is conceived in a comprehensive manner with at least five dimensions:

- Access to a full range of quality financial services, including credit, savings, insurance, and payments;
- Financial services need to be affordable and suitable to the consumers, and delivered with quality and convenience that ensure dignity and client protection;

- Consumer have to be capable of making informed and good finance-management decisions;
- Financial services need to be available to all, without anyone excluded and underserved; and
- There is a need for a range of providers, a robust financial infrastructure, a clear regulatory framework, and financial services to be provided as per the client's choice through a diverse and competitive financial market.

**Table 7: Regulatory Landscape of Financial Institutions**

	<i>BB</i>	<i>IDRA</i>	<i>BSEC</i>	<i>MRA</i>
<i>State owned Scheduled Banks</i>	6			
<i>State owned Specialized Banks</i>	3			
<i>Private Scheduled Banks</i>	44			
<i>Foreign Scheduled Banks</i>	9			
<i>Non-Scheduled Banks</i>	5			
<i>Govt. NBFIs</i>	3			
<i>Private NBFIs</i>	32			
<i>MFS Operators</i>	15			
<i>Govt. Insurance Corporation</i>		2		
<i>Private Insurance Companies</i>		77		
<i>Stock Exchanges</i>			2	
<i>Merchant Banks</i>			63	
<i>Stock Broker/Dealer</i>			356	
<i>Credit Rating Companies</i>			8	
<i>Asset Management Companies</i>			48	
<i>Fund Managers</i>			20	
<i>MFIs</i>				746

Data Source: Websites of BB, BSEC, IDRA and MRA

The snapshot below shows the access points of financial services that are featured by banks, MFIs and cooperatives in Bangladesh:

**Table 8: Snapshot of Financial Service Access Points in Bangladesh**

Number of Bank Branches including Head Offices, Islamic Windows and SME service	10,767
Number of ATMs	12,225
Number of Agent Banking Outlets	16,420
Number of MFS Agents	10,69,257

Number of POS	79,254
Number of Insurance Companies' Branches (Life & Non-life)	6,842
Number of Insurance Agents (Life & Non-life)	3,57,834
Number of MFI Branches	20,898
Data Source: Websites of BB, IDRA and MRA	

**Table 9: Month-wise Data of Electronic Fund Transfer (EFT)**

SL	Month	Number	BDT (million)
1	January'20	4554655	205584.55
2	February'20	3919532	193759.36
3	March'20	4214811	189264.13
4	April'20	4432042	328152.07
5	May'20	6412744	448428.22
6	June'20	9417862	289274.43
7	July'20	10041053	340852.38
8	August'20	4625420	250667.75
9	September'20	5101393	297493.79
10	October'20	5322204	296961.65
11	November'20	6360579	329917.44
12	December'20	5657433	360990.73
13	January'21	7236291	367924.74
14	February'21	9650638	335695.87
15	March'21	12155148	402091.75
16	April'21	14583924	391495.61
<b>Total =</b>		<b>11,36,85,729</b>	<b>5028554.47</b>
Source: Bangladesh Bank			

## Glossary

### Definition

1. Adult- In this strategy, 'Adult' will be defined according to the definition given in Majority Act 1875.
2. Child- In this strategy, 'Child' or 'Children' will be defined according to the definition given in National Children Policy 2011.
3. CMSME- In this strategy, 'CMSME' will be defined according to the definition given in National Industrial Policy 2016.
4. Women entrepreneur- For this strategy, 'women entrepreneur' will be defined according to the definition of National Women Development Policy 2011.
5. Youth- In this strategy, 'Youth' will be defined according to the definition given in National Youth Policy 2017.

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National Financial Inclusion Strategy (NFIS) is a comprehensive document to systematically accelerate financial inclusion and raise awareness on challenges, build trust and collaboration among stakeholders, adopt comprehensive and integrated approaches to promote financial inclusion, leverage technology for the reach and sustainability of financial inclusion initiatives, contribute towards developing a range of financial products and services and provide a clear roadmap on how to implement and coordinate financial inclusion initiatives.

NFIS is based on strategic objective, goals and targets focused to minimize marginalization and vulnerabilities. The strategy bridges the first and last mile of inclusion and creates a virtuous cycle of Innovation, Demand and Trust for Sustainable and Impactful Financial Inclusion.

