IMPACT CASE STUDY

Capacity Building in Regulators: Bangladesh Bank

Assessment on Financial Inclusion Policy Initiatives Introduced by Bangladesh Bank through Digital Frontiers Institute Alumni for the Period 2016 – 2023

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Executive Summary

This impact assessment study evaluates the effect of Bangladesh Bank's (BB) digital financial inclusion policy initiatives introduced through the work of alums of Digital Frontiers Institute's (DFI) capacity-building programs from 2016 to 2023. The study analyses policy interventions, regulatory reforms, and market dynamics to identify the tangible contributions made by BB in promoting an inclusive DFS ecosystem in Bangladesh.

It is important to note that the policy interventions and regulatory reforms in this study are only those introduced through the DFI alums at the BB and not an exhaustive assessment of all financial inclusion policy reforms undertaken by BB, nor an evaluation of the policy reforms alignment to international best practices.

The study finds that BB's inclusive policy initiatives have substantially improved financial inclusion through the work of DFI Alumni, particularly in CMSME financing, payment systems, banking regulation, and AML/CFT compliance. Introducing alternative financing options, financial instruments, and standard reporting frameworks has enabled greater access to finance for CMSMEs, leading to increased economic activity and job creation. The policy interventions in payment systems have significantly increased digital transactions, enabling greater financial inclusion and reducing the cost of financial services.

Introducing a refinance scheme for digital nano loans and licensing digital banks has contributed to the growth of Bangladesh's digital financial services industry, providing a conducive environment for startups and financial institutions to innovate and serve the unbanked and underbanked populations. The study also highlights the role of the Financial Inclusion Department and the Bangladesh Financial Intelligence Unit in promoting AML/CFT compliance and e-KYC guidelines, facilitating easy customer onboarding, and ensuring the financial integrity of the Bangladesh financial sector.

The study further notes the importance of BB's policy interventions in promoting financial literacy and consumer protection, which has enabled greater trust and confidence in digital financial services. The study finds that these policy initiatives have increased financial inclusion, particularly among the youth and low-income populations.

Overall, the study concludes that BB's digital financial inclusion policy initiatives, introduced by DFI Alumni, have positively impacted financial inclusion in Bangladesh and will contribute to the country's transition to a "Smart Bangladesh" by 2041. The study recommends that BB continues to prioritise digital financial inclusion policies and initiatives to ensure sustainable and inclusive economic growth in Bangladesh. The study also suggests that similar comprehensive, sustained and scaled capacity-building programmes within other central banks would net similar impacts.

Methodology

The study, led by an independent financial inclusion policy expert, is based on a qualitative research methodology, drawing on primary and secondary data sources. The primary data sources include interviews with key stakeholders, including Bangladesh Bank officials, financial sector experts, and digital financial service providers. The secondary data sources include policy documents, reports, and statistical data from the Bangladesh Bank and other relevant institutions.

Impact Areas

The study analyses the impact of BB's digital financial inclusion policy initiatives, introduced through the work of DFI Alumni, in five areas:

1. CMSME Financing Policy Reforms
2. Inclusive Payments Systems Policy Reforms
3. Banking Regulation and Policy Reforms
4. AML/CFT Regulations and Policy Reforms
5. Financial Inclusion Department

CMSME Financing Policy Reforms

The study finds that alumni policy interventions in CMSME financing have significantly improved access to finance for CMSMEs. The introduction of alternative financing options, such as supply chain financing and factoring, has enabled greater access to finance for CMSMEs, particularly those in the agriculture and manufacturing sectors. The study also highlights the role of alternative financial instruments, such as digital credit scoring and mobile-based lending, in expanding financial inclusion for CMSMEs.

The study further notes the importance of BB's Standard Reporting Framework (SFR), which has enabled greater transparency and accountability in CMSME financing, leading to increased trust between lenders and borrowers. The study finds that these policy initiatives have increased economic activity and job creation, particularly in rural areas.

Inclusive Payments Systems Policy Reforms

The study finds that alumni policy interventions in payment systems have significantly increased the number of digital transactions. Introducing policy interventions, such as interoperability between financial service providers (banks, MFS, PSPs), has enabled greater financial inclusion and reduced the cost of financial services. The study also highlights the role of BB in promoting digital payments by introducing digital payment gateways and QR code payments.

The study further notes the importance of policy interventions in promoting merchant acceptance of digital payments, which has enabled greater consumer adoption of digital payments. The study finds that these policy initiatives have increased financial inclusion, particularly among women and rural populations.

Banking Regulation and Policy Reforms

The study finds that alumni policy interventions in banking regulation and policy have contributed to the growth of Bangladesh's digital financial services industry. Introducing a refinance scheme for digital nano loans and licensing digital banks has provided a conducive environment for startups and financial institutions to innovate and serve the unbanked and underbanked populations.

The study also notes the importance of BB's policy interventions in promoting financial literacy and consumer protection, which has enabled greater trust and confidence in digital financial services. The study finds that these policy initiatives have increased financial inclusion, particularly among the youth and low-income populations.

AML/CFT Regulations and Policy Reforms

The study finds that alumni policy interventions in AML/CFT compliance have contributed to the safety and security of digital financial transactions. It highlights the role of the Financial Inclusion Department and the Bangladesh Financial Intelligence Unit in promoting AML/CFT compliance and e-KYC guidelines, facilitating easy client onboarding, and ensuring the safety and security of digital financial transactions.

The study also notes the importance of promoting the use of CTR and STR by the DFS providers and enhanced analytical capacity of the FIU, which has enabled greater transparency and accountability in financial transactions. The study finds that these policy initiatives have increased financial inclusion, particularly among the unbanked and underbanked populations.

Financial Inclusion Department and the National Financial Inclusion Strategy Administrative Unit

The Financial Inclusion Department (FID) and the National Financial Inclusion Strategy Administrative Unit (NFISAU) at Bangladesh Bank have significantly benefited from the Certified Digital Finance Practitioner (CDFP) program. Key impacts include:

- **Policy Influence:** FID officials, particularly one who completed 16 courses, have influenced policy-making, notably drafting the Financial Literacy Guidelines for Banks and Financial Institutions in 2022 and passing the "Secured Transaction (Movable Collateral) Act, 2023."
- **Practical Application:** The program has practically impacted shaping MSME-targeted policy initiatives.
- **Enhanced Knowledge:** NFISAU officials have gained a deeper understanding of financial inclusion, inclusive payment systems, mobile money operations, and data security in digital financial services.

- **Empowering Research:** The program's research focus has enabled CDFP fellows to tackle economic challenges and drive financial reforms in Bangladesh.

Conclusion

The study concludes that BB's digital financial inclusion policy initiatives, introduced through DFI Alumni, have positively impacted financial inclusion in Bangladesh and contributed to the country's transition to a "Smart Bangladesh" by 2041. The study recommends that BB continue prioritising digital financial inclusion policies and initiatives to ensure sustainable and inclusive economic growth in Bangladesh. The study further recommends greater coordination and collaboration between stakeholders in the financial sector to ensure the effective implementation of digital financial inclusion policies and initiatives.

Introduction and Background

This Impact Assessment study evaluates the impact of the Digital Frontiers Institute (DFI) capacity-building programs on Bangladesh Bank officials' policymaking knowledge and skills, translating to inclusive policy and regulatory initiatives introduced by the Bangladesh Bank to promote digital financial inclusion in Bangladesh. Through an analysis of policy interventions, regulatory reforms, and market dynamics, the report aims to identify and demonstrate the tangible contributions made by the BB in promoting an inclusive DFS ecosystem to support Bangladesh's transition to a "Smart Bangladesh" by 2041.

The paper provides some background on the financial sector and financial inclusion in Bangladesh, then shares the DFI capacity-building methodology and quantitative results. It then assesses the impact areas identified through DFI Alumni and ends with recommendations.

Bangladesh Financial Sector

The financial system in Bangladesh consists of three broad sectors[1]: the formal sector, the semi-formal sector and the informal sector. The formal sector comprises banks, non-bank financial institutions (NBFIs), insurance companies, capital market participants and microfinance institutions (MFIs). The semi-formal sector comprises specialised financial institutions (FI), credit cooperatives and credit unions, and the informal sector of unregulated private financial intermediaries.

Bangladesh Bank (BB) is the financial regulator for the banking sector, which consists of 61 banks and 35 NBFIs. BB is primarily responsible for monetary policy and financial sector stability as the apex regulator. Other financial regulators, like the Microcredit Regulatory Authority (MRA), the Bangladesh Securities and Exchange Commission (BSEC), and the Insurance Development and Regulatory Authority (IDRA), are responsible for the regulation and supervision of MFIs, the capital market and insurance companies, respectively.

Financial Inclusion in Bangladesh

Bangladesh has made significant strides in financial inclusion since 2014, primarily driven by digital financial services. According to the Global Findex[2], in 2021, 53% of Bangladeshi adults have an account, up from 31% in 2014. This progress has positively impacted millions of people, especially women.

[1] Bangladesh Bank. Financial Stability Report 2022, Issue 13
[2] https://www.findevgateway.org/country/financial-inclusion-in-bangladesh

Women's financial inclusion almost doubled from 26% in 2014 to 43% in 2021. The gender gap in financial inclusion decreased from 29% in 2017 to 20% in 2021.

Table 1. Financial Inclusion Trends in Bangladesh

	2021	2017	2014
Financial Account Ownership	53%	50%	31%
Female (% age 15+)	43%	36%	26%
Male (% age 15+)	63%	65%	35%
Gender Gap	20%	29%	9%
Financial Institution Account	38%	41%	29%
Female (% age 15+)	31%	32%	25%
Male (% age 15+)	45%	50%	33%
Gender Gap	14%	18%	8%

Source: World Bank's Global Findex 2021[3]

Global and Regional Comparison[4]: Bangladesh has outperformed both global and regional averages in terms of the use of financial services. In 2021, Bangladeshi adults with an inactive account stood at 8%, above the South Asia (SA) regional average of 32% and the global average of 10%, respectively. In terms of savings, 23% of Bangladeshi adults saved at a financial institution at par with the SA regional average and with even higher borrowing levels at 46% per cent, above the South Asia regional average of 44%.

Women's Financial Inclusion

The growth in financial inclusion has been particularly remarkable among women, the rural population, and individuals with lower education levels. The Bangladesh Financial Inclusion Insights survey conducted by InterMedia in 2021 shows 43% of all women had a bank account, with 33% having made or received a digital payment. In terms of usage, according to the Global Findex data, in 2021, only 6% of Bangladeshi women had an inactive account compared to 25% regionally (SA) and 8% globally, which is commendable. Regarding savings, Bangladeshi women performed at par with the

3 https://www.worldbank.org/en/publication/globalfindex
4 https://www.findevgateway.org/country/financial-inclusion-in-bangladesh

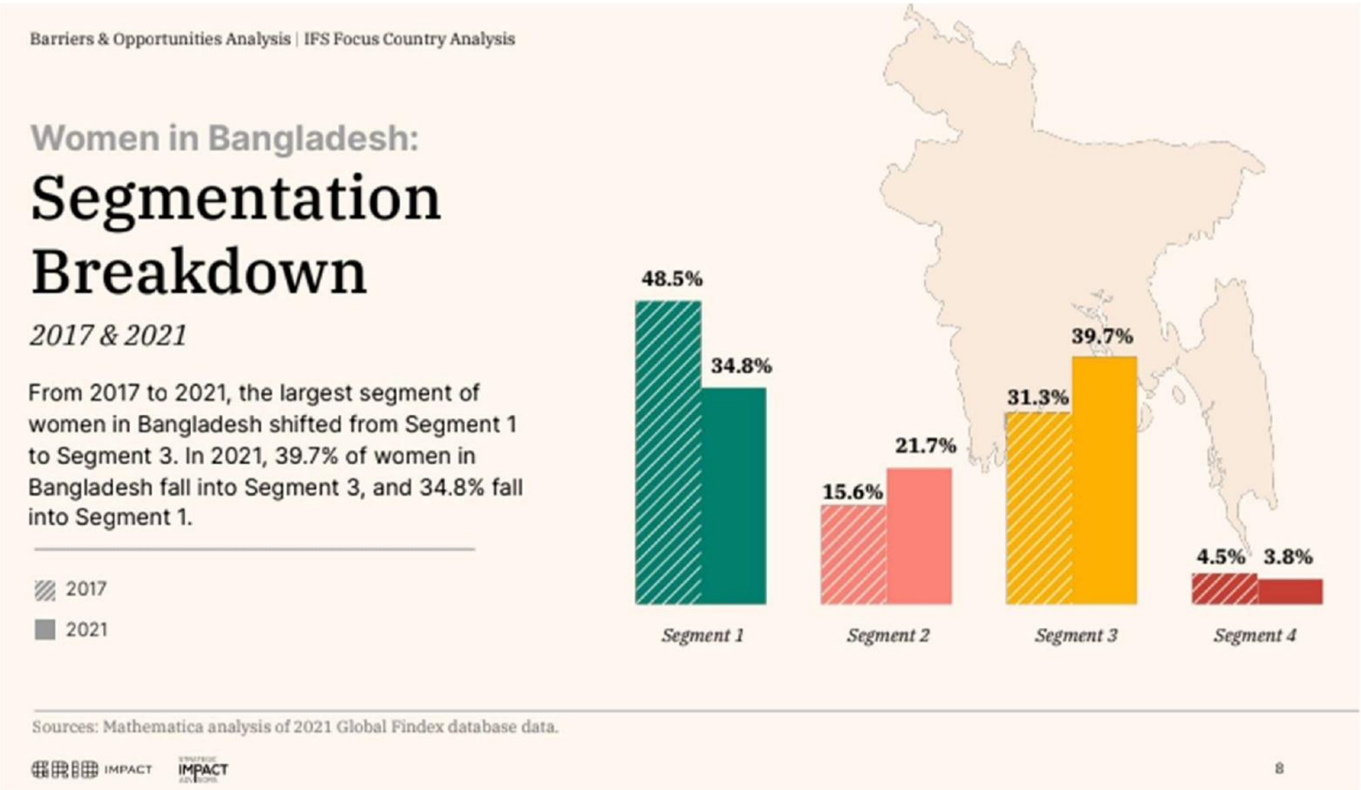
SA regional average of 21%, with even higher borrowing levels at 17% compared to the 10% SA regional average.

Despite progress, multiple barriers to women's financial inclusion still exist. A study conducted by GRID Impact[5] identified the obstacles that impede women's financial inclusion. The study used the following financial inclusion segmentation approach:

1. Segment 1: Excluded Underserved
2. Segment 2: Excluded but High Potential
3. Segment 3: Included but Underserved
4. Segment 4: Included not Underserved

The study found that between 2017 and 2021, women in Bangladesh shifted from Segment 1 to Segment 3. In 2021, women in Segment 1 reduced from 48.5% to 34.8%, while women in Segment 3 increased from 31.3% to 39.7%, which shows a positive trend in women's financial inclusion.

[5] GRID Impact Study on barriers and opportunities for WEE-FI Bangladesh Country Report



The identified barriers that impede women in Segment 3 from transitioning to Segment 4 are a lack of women-responsive products and unclear or unavailable information about financial products and use cases. The study underlines the need for gender-responsive products and greater awareness of different use cases of digital financial services. Bangladesh Bank's (BB) policy initiatives to promote digital financial inclusion align with these requirements.

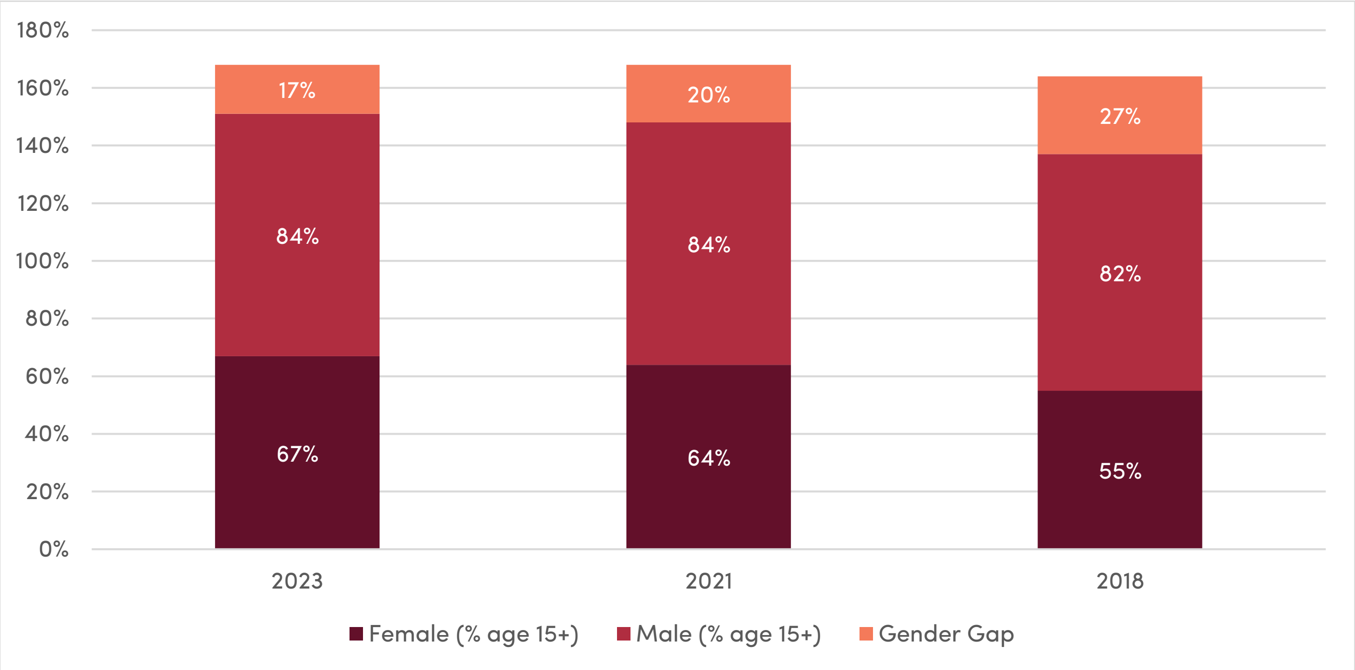
Digital Financial Inclusion

Mobile Phone Penetration: Bangladesh has witnessed a surge in mobile phone penetration and usage. According to the Bangladesh Telecommunication Regulatory Commission data[6], as of November 2023, the number of mobile phone subscribers reached 190.36 million in Bangladesh. This widespread mobile phone adoption has created an ideal environment for the growth of mobile financial services, playing a crucial role in promoting digital financial inclusion. These findings are corroborated by the GSMA Mobile Gender Gap Report[7] (see Figure 1) data, which shows an increasing trend in mobile ownership by Bangladeshi adults with a positive trend in women's mobile ownership and a narrowing gender gap

[6] https://www.tbsnews.net/bangladesh/telecom/bangladeshs-mobile-users-reach-19036-million-764658
[7] https://www.gsma.com/r/gender-gap/

in mobile ownership. Between 2018 and 2023, women's mobile ownership experienced a 12PP (from 55% to 67%) increase compared to 2PP (from 82% to 84%) for men, translating to an improved 17% gender gap in mobile ownership.

Figure 1. Mobile Ownership Trends in Bangladesh (2018-2023)



Source: GSMA The Mobile Gender Gap Report

Mobile Financial Services: Bangladesh hosts several innovative mobile financial service (MFS) providers, such as bKash, Nagad, Rocket, and SureCash. These providers offer inclusive digital payments widely used by government, businesses, and individuals, reflecting BB's commitment to supporting financial innovation in promoting financial inclusion. Among the MFS providers, Nagad and bKash are Bangladesh's top two mobile financial service providers, accounting for over 58% of the market share[8]. bKash was launched in 2011, and as of June 2023, it had over 70 million users and a network of over 330,000 agents across Bangladesh. Similarly, Nagad was launched in 2018 and has grown to over 80 million registered users as of June 2023[9]. Nagad and bKash have contributed to

[8] https://www.linkedin.com/posts/mohammad-ullah-sajjad_mfsbangladesh-nagad-bkash-activity-71133742428716/

[9] https://www.dhakatribune.com/business/323312/nagad-leads-the-digital-payments-revolution-in

advancing financial inclusion through mobile banking, making financial services more affordable and accessible to all.

The country has witnessed substantial growth in MFS, comparable to African markets. Notably, very poor rural households in Bangladesh, with family members who migrated to cities, received higher remittance payments through MMA, which were used for essential needs, reducing borrowing and lowering the risk of extreme poverty. Moreover, most financial services are now accessible, affordable, and delivered more conveniently via mobile money providers than traditional ones. MFS is often the preferred financial instrument in Bangladesh.

Mobile Money Account Ownership: Bangladesh Bank's concerted efforts have expanded financial access and improved the well-being of its population through mobile money. Between 2017 and 2021, there has also been substantial growth in overall mobile money account (MMA) ownership and usage. Increased mobile phone usage, internet access, and mobile-based transactions have catalysed this progress. MMA ownership has risen by eight percentage points (PP), from 21 per cent in 2017 to 29 per cent in 2021. Women1s MMA registered an increase of 10PP, from 10 per cent in 2017 to 20 per cent in 2021, compared to a 6PP rise in men1s MMA. The overall increase in MMA can be attributed to the higher growth in women1s MMA and the COVID-19 pandemic, during which social safety net payments were made solely through mobile money.

Table 2. Mobile Money Account Ownership Trends in Bangladesh

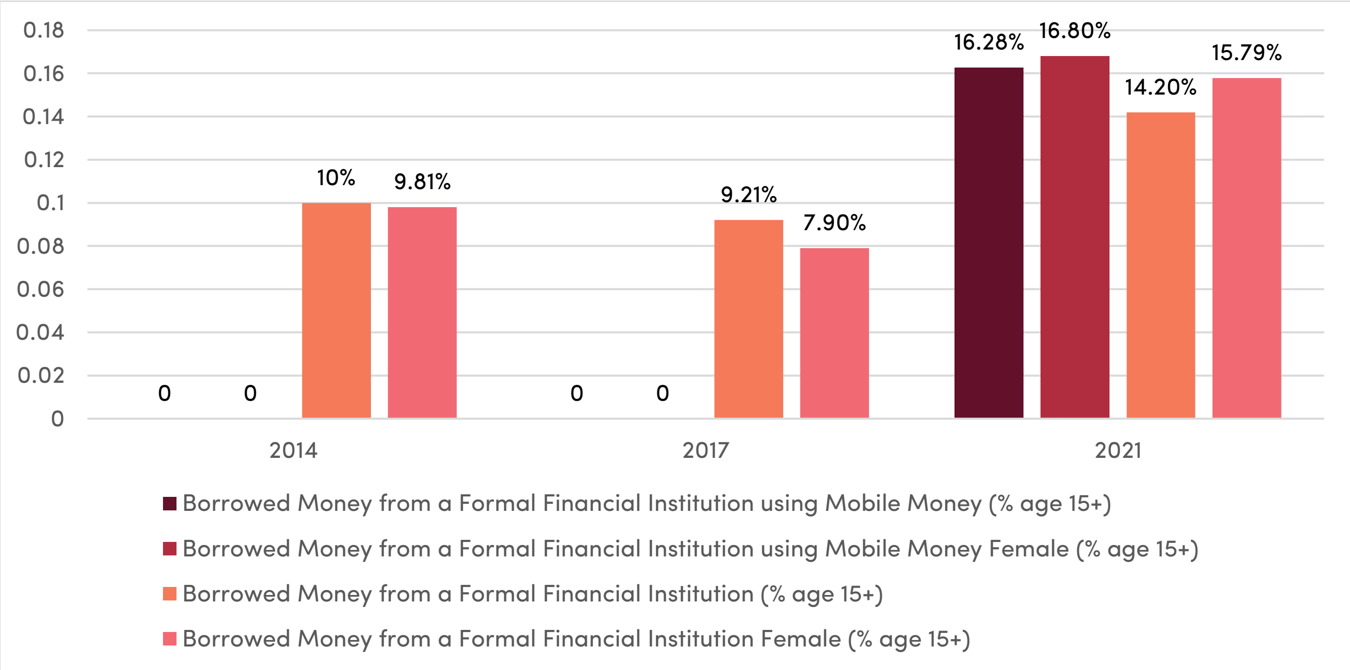
	2021	2017	2014
Mobile Account	29%	21%	3%
Female (% age 15+)	20%	10%	2%
Male (% age 15+)	38%	32%	3%
Gender Gap	18%	22%	1%

Source: World Bank's Global Findex 2021

Digital Payments: Bangladesh Bank officials report good progress in adopting and using digital payments. For example, as of December 2023, the government conducts 26% of its payments by volume and 58% by value digitally. Businesses conduct 23% of payments by volume and 6% by value digitally. Individual consumers conduct 19% of payments by volume and 18% by value digitally. This demonstrates just how much scope digital payments still have in Bangladesh.

Formal Credit: Bangladesh has also made good progress in access to and use of formal credit through increased use of mobile money services and digital channels. Figure 2 shows trends in borrowing from a formal financial institution (FI) for the period 2014 - 2021. Overall, credit from a formal FI has increased from 10% in 2014 to 14% in 2021, with a reverse gender gap of 3% in 2021, meaning an increasing number of women are now accessing and using formal credit as opposed to men. In terms of women's use of formal credit, in 2021, female adults who borrowed money from a formal financial institution using mobile money stood at 17% compared to 16% for Bangladeshi adults, which shows two things: women's preference for mobile money services and MFS as a driver of digital financial inclusion in Bangladesh.

Figure 2. Trend in Borrowing by Bangladeshi Adults from Formal Financial Institutions



Source: Global Findex Database Interactive Dashboard

Objectives and Methodology

This case study delves into the impactful initiatives and policies introduced by the Bangladesh Bank and their evidence-based effects on the financial market. Through an analysis of key interventions, regulatory changes, and market dynamics, the study aims to demonstrate the tangible contributions made by the Bangladesh Bank aligned with the Digital Frontiers Institute (DFI) built capacity. By analysing empirical data, market indicators, and real-world outcomes, this case study will shed light on the pivotal role played by the Bangladesh Bank in shaping a robust and thriving financial ecosystem in Bangladesh.

The study employed a mixed method approach combining quantitative and qualitative data to ensure a comprehensive and quality assessment. DFI alums in BB came together and explored their contributions to the regulatory reforms. Then, detailed desk research was conducted, supplemented by primary data collected through interviews. The information gathered was analysed, and findings were incorporated into the report to provide a holistic understanding of the DFI capacity-building programme's impact in strengthening Bangladesh Bank's regulatory and supervisory role to promote an inclusive DFS ecosystem in Bangladesh.

Capacity Building in Bangladesh

The Digital Frontiers Institute (DFI) actively built inclusive finance capabilities in Bangladesh between 2016 and 2020. Between 2020 and 2023, it deployed a BMGF-funded scholarship program to enhance the digital finance capabilities of Bangladeshi public sector professionals. The beneficiaries of this scholarship program included three prominent organisations in Bangladesh: Bangladesh Bank, the Ministry of Finance, and the Micro Credit Regulatory Authority. Bangladesh is one of the Bill and Melinda Gates Foundation (BMGF) priority countries, with the Foundation supporting several socio-economic developmental initiatives, including accelerating digital financial services and financial regulatory and policy development.

Capacity Building Approach

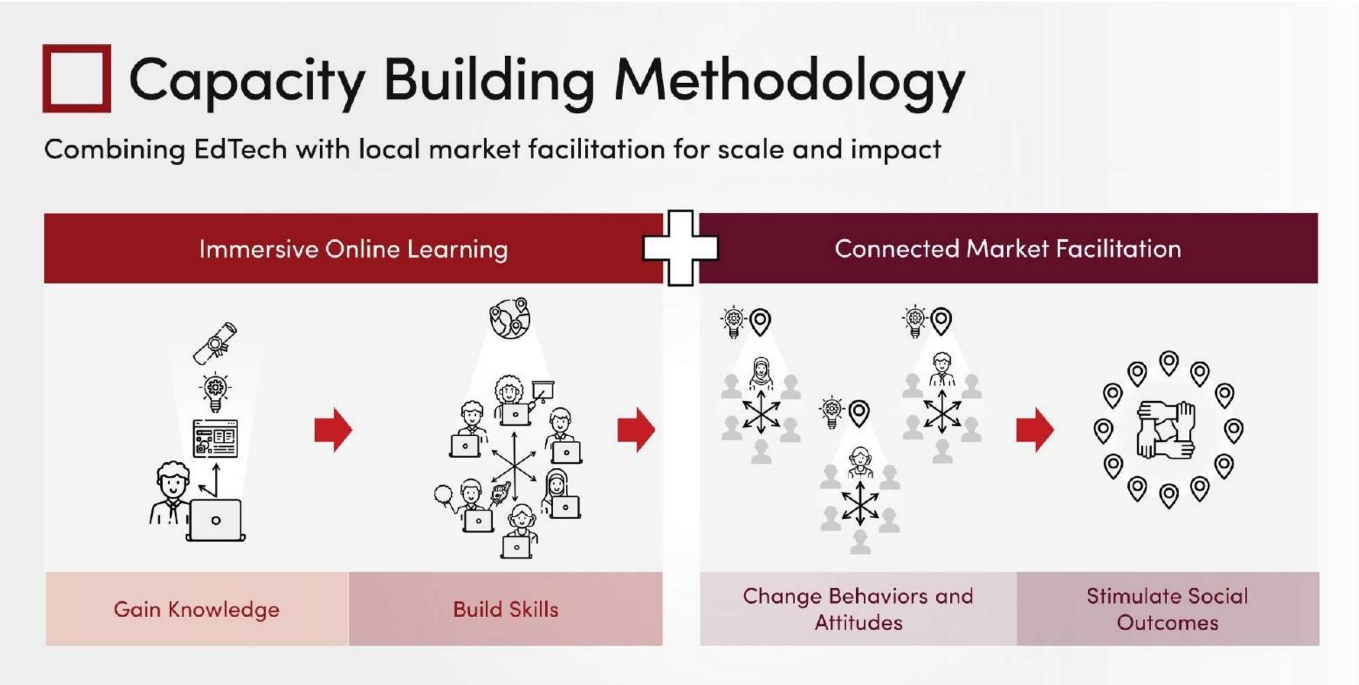
DFI adopts a holistic approach to enhance local professional capacity. As a fundamental principle, DFI collaborates with leading subject matter experts and specialist organisations to design interventions and develop curricula.

DFI employs learning and instructional design sciences, gamification, and well-tested learning and assessment tools. It utilises various media formats, ranging from animation and motion graphics to videography and knowledge resources. By leveraging Educational Technology (EdTech), DFI offers immersive learning experiences at scale, enabling simultaneous instruction of thousands of students across numerous countries.

After eight years of testing, learning, and innovation, DFI asserts that while online, self-paced, and free adult learning can enhance knowledge, it is not the most effective method for skill development, behaviour change, or societal impact. Therefore, DFI's methodologies supplement online learning by bringing together students from diverse geographies in synchronous forums and working groups. This allows them to learn from global peers about the practical application and understanding of theories in different markets and the existing challenges and solutions. This approach replicates a physical classroom experience where students engage synchronously with peers and leading subject matter experts, applying their learnings to casework and local contexts. This supplement to digital learning transforms participants' acquired knowledge into applicable skills.

However, for these newly developed skills to be applied in local market contexts, professionals require peer networks, continuous access to resources, and ongoing professional development. To facilitate the continuous professional development of its community, DFI organises online Leagues of Professionals, both physical and virtual Communities of Practice (CoPs) and maintains knowledge banks. The Leagues of Professionals are subject matter specific and provide a platform for current students and alums to share knowledge and experiences, discuss new ideas and developments, and ultimately enhance the knowledge base and foster peer learning opportunities for professional development and advocacy.

The CoPs, distributed globally, meet face-to-face and virtually to discuss industry-wide issues and challenges. These communities connect students directly with their industry peers, fostering communication, cooperation, knowledge sharing, and innovation. With the help of DFI, these communities also evolve into formal local professional associations that continue independently of DFI. Lastly, DFI maintains an extensive and freely accessible knowledge bank comprising all resources in their courses and within the alum network. This includes a wide array of blogs, articles, research papers, and dozens of webinars conducted each year.



Bangladesh, Bangladesh Bank, and the Digital Frontiers Institute

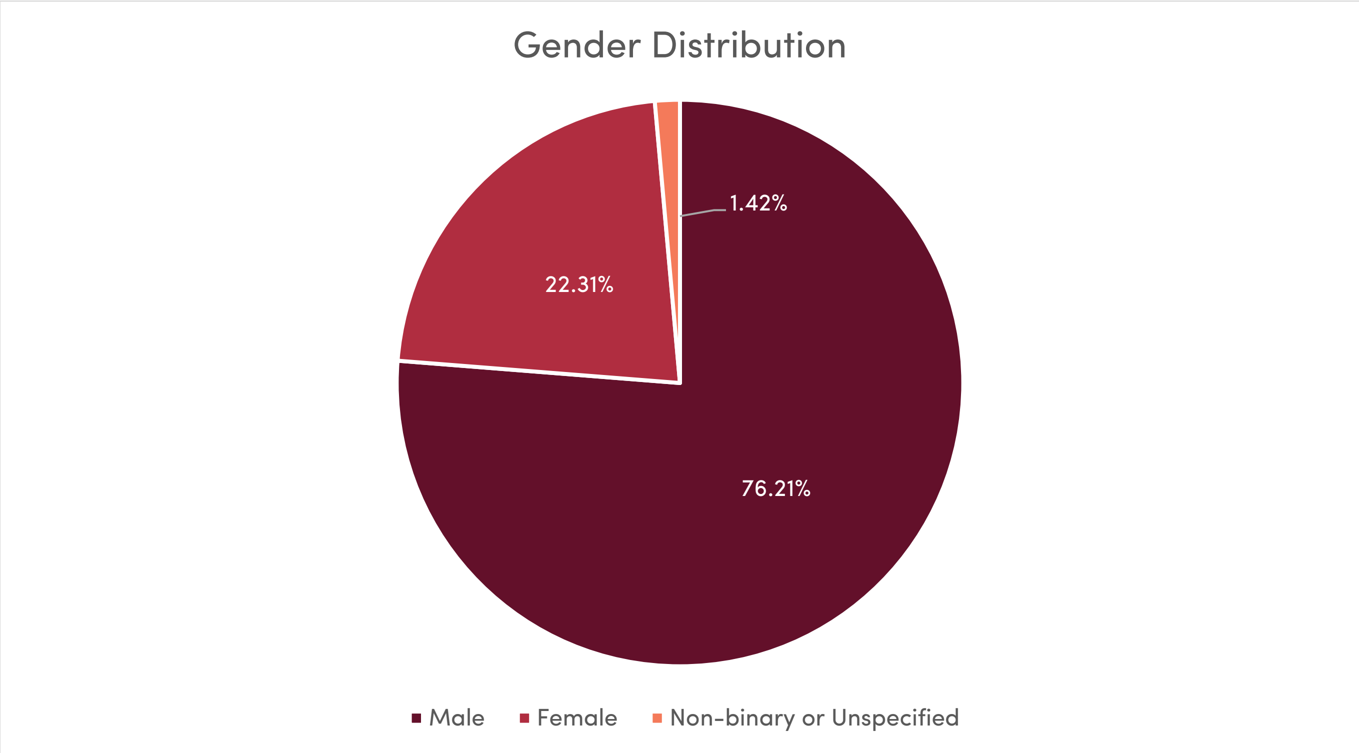
DFI has significantly enhanced the capacity and capabilities of 855 unique participants from Bangladesh between 2016 and 2023. These participants represent90 institutions, with an average pass rate of 82%, and took a combined 4366 courses. Notably, the proportion of female participants has grown from an average of 18% in 2018 to 29% in 2023. The capacity-building efforts were achieved through three key programs: the Certified Digital Finance Practitioner (CDFP), Digital Financial Inclusion Supervision (DFIS) and Instant and Inclusive Payment Systems (IIPS).

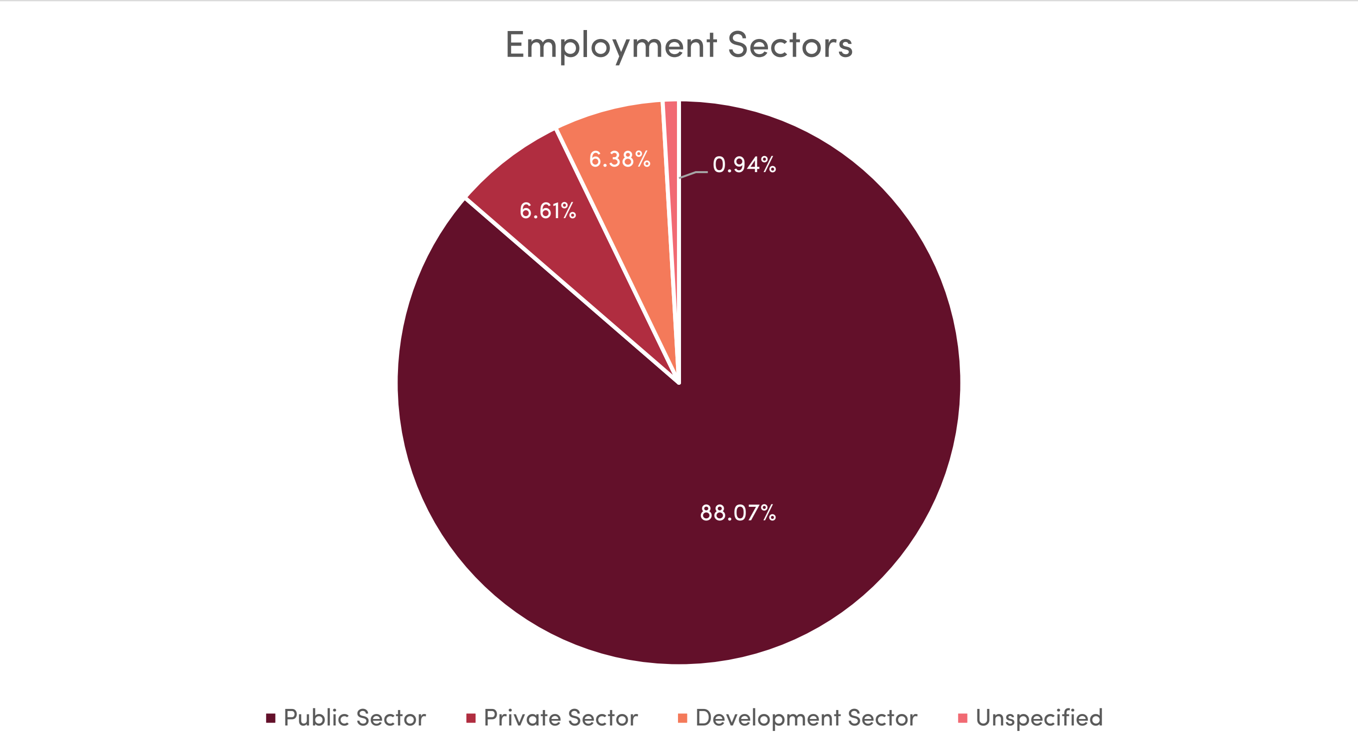
205 participants have qualified as Certified Digital Finance Practitioners (CDFP), a three-year training program offering 22 specialisations across customers and uses of digital payments, regulation in digital financial services, and the technology and operational enablers of inclusive finance systems. The DFI

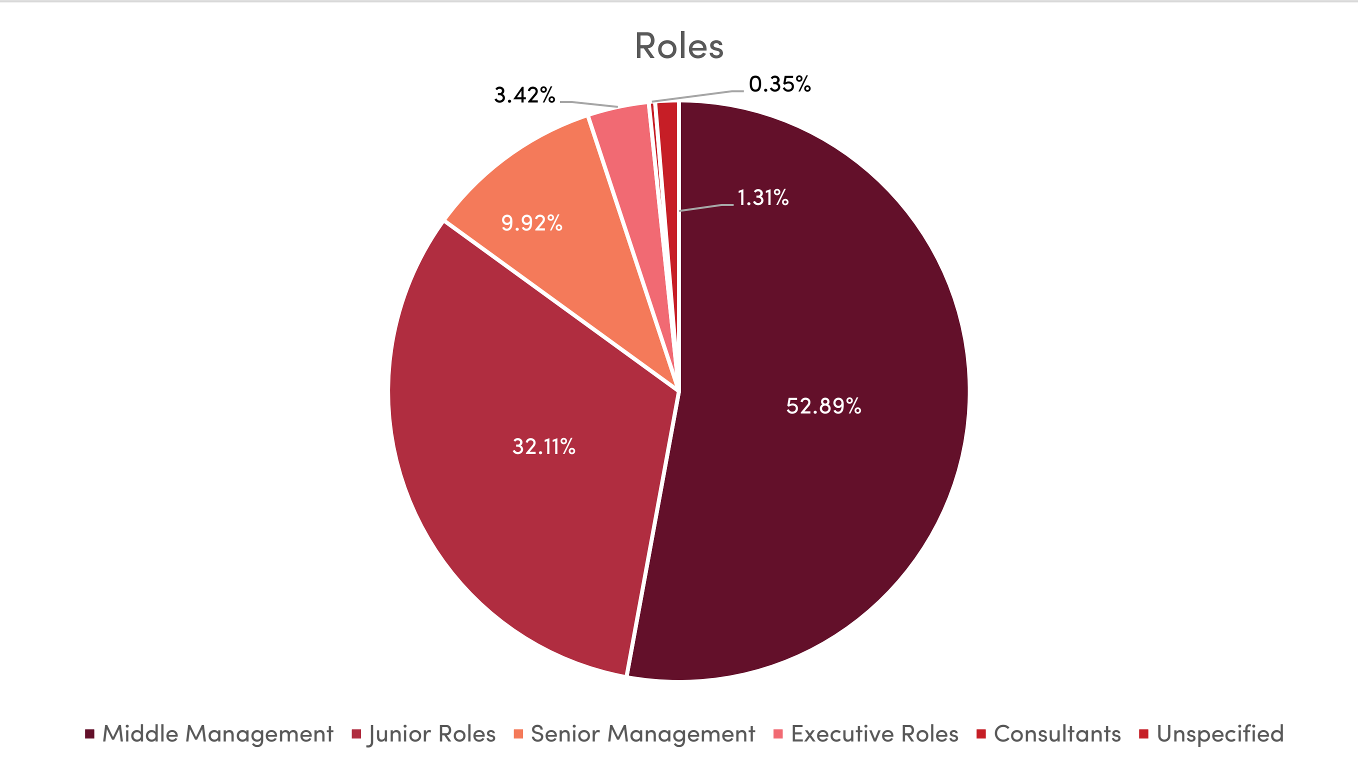
CDFP programme is certified through Fletcher, the graduate school of global affairs at Tufts University. Remarkably, Bangladesh currently boasts the highest number of CDFP graduates globally.

Through the BMGF/DFI scholarship programme, Bangladesh Bank has the highest concentration of DFI alums worldwide. 709 Bangladesh bank officials have taken 3955 DFI courses and qualified 189 CDFPs.

Figure 3. Bangladesh DFI Alum Demographics




Employment Sectors
6.38%
0.94%
6.61%
88.07%
Public Sector
Private Sector
Development Sector
Unspecified


Roles
3.42%
0.35%
1.31%
9.92%
52.89%
32.11%
Middle Management
Junior Roles
Senior Management
Executive Roles
Consultants
Unspecified

Several DFI alumni have assumed significant roles within the Bangladesh Bank, particularly in areas related to Digital Finance, Payment Systems, and the Digital Economy. In addition, many DFI alumni have recently taken on key roles in international organisations such as the United Nations Capital Development Fund (UNCDF) and VISA. Some are also contributing their expertise to other government agencies.

Communities of Practice, DFFB and the AllianceDFA

The Digital Frontiers Institute (DFI) has been facilitating local, in-person, and virtual community of practice workgroups, which have been instrumental in applying skills learnt in DFI courses to local contexts. These workgroups have also formed the foundation for cross-sector collaboration and innovation in solving inclusive finance issues in Bangladesh. Over the years, DFI has facilitated 192 of these convenings, which have brought together more than a thousand attendees, including course alums and other finance sector invitees.

These community of practice workgroups have not only helped in applying skills but also paved the way for the formation of the Digital Finance Forum, Bangladesh (DFFB). The partnership between Bangladesh and DFI started with Bangladesh Bank officials' participation in the DFI, which offered CDFP, IIPS, Digital Economy, and DFIS certifications. Later, due to the work and motivation of the DFFB, DFI COPs helped to expand the trainee base outside Bangladesh Bank in the country's broader financial services industry.

DFFB has been established to promote digital finance in Bangladesh. Its main objective is to provide a platform for stakeholders to share their knowledge, experiences, and best practices and create an environment enabling digital finance development in Bangladesh. The DFFB has helped bring together stakeholders from different sectors to discuss and address key issues related to digital finance, challenges, and policy solutions. DFFB has played a crucial role in influencing Bangladesh Bank's policies on payment systems, financial inclusion, and digital finance promotion and regulations. The DFFB convening committee team spoke at events, including the 5th Bangladesh Retail Congress organised by Bangladesh Brand Forum and Risk and Fraud Management in Digital Financial Services by CelBH, Nigeria.

DFFB has been a founding member of The Alliance of Digital Finance and Fintech Associations (AllianceDFA) since 2021. One of DFFB's members, Md Ashraful Alam, who was also a high Bangladesh Bank official, represents DFFB in the Alliance for Digital Finance Association and as a member of the AllianceDFA Board of Directors.

In summary, DFFB has been instrumental in promoting digital finance in Bangladesh, bringing key stakeholders together to address key issues, and influencing policies to support the growth of the digital finance industry in the country.

Impact Areas

DFI training programs have emerged as a powerful catalyst in promoting digital financial inclusion in Bangladesh facilitated by the BB DFI alums equipped with the required knowledge and skills through targeted programs like CDFP, IIPS, and DFIS to navigate the dynamic landscape and complexity of digital finance. As a result, BB officials have contributed to developing and implementing the following policies and regulatory reforms to promote positive changes in creating an inclusive digital finance ecosystem in Bangladesh.

1. CMSME Financing Policy Reforms

Background

Bangladesh is famous for pioneering the global micro-credit revolution based on the group liability lending model. Since 2010, Bangladesh Bank has prioritised promoting Cottage MSME financing by leading the formulation of CMSME financing policies in collaboration with key stakeholders such as the Ministry of Industry. Through its targeted policies supported by effective implementation from banks and Fis, total loans to MSMEs by banks and NBFIs have tripled from BDT 540 billion (USD 6 billion) in 2010 to over BDT 1,670 billion (USD 20 billion) in 2019.[10] Yet, CMSMEs face an estimated financing gap of BDT 237 billion (USD 2.8 billion).[11] Regarding the gender gap in SME financing, "61 per cent of Bangladesh women-led SMEs are partly or fully constrained in their access to finance, compared to 49 per cent for men-led SMEs."[12]

Policy Interventions

As the lead policy and regulatory body for banks and Fis, BB has played a crucial role in promoting access to finance for CMSMEs through policy guidance and target setting for banks and Fis. MSME financing is guided by the National Financial Inclusion Strategy (NFIS)[13] - a comprehensive policy framework with MSME-centric goals and targets.[14] BB, through the SME a Special Programmes Department (SMESPD), has developed and implemented the prudential policy framework, introduced alternative financing options, ensured availability of sufficient credit through refinance/pre-finance facilities, provided capacity building training to build entrepreneurship and initiated Credit Guarantee facilities. BB DFI alums have contributed directly to developing the policy measures mentioned below.

[10] UNESCAP. 2021. MSME Financing Series No.5
[11] World Bank Group. Financing solutions for Micro, Small and Medium Enterprises in Bangladesh 2019
[12] UNESCAP. 2021. MSME Financing Series No.5
[13] BB
[14] Refer the NFIS 2021-2026 for MSME Financing Goals and Targets

a. Gender and Target-based CMSME Policy

The definition of Micro, Small, and Medium Enterprises (MSMEs) varies globally, reflecting the diversity of economic structures and contexts. However, a common thread is the consideration of factors such as the number of employees, annual turnover, or a combination of both. In Bangladesh, different organisations followed different definitions for a long time and lacked a uniform MSME definition until the 2016 Industrial Policy. BB has set the unified CMSME definition in line with the National Industrial Policy and National SME Policy based on the value of fixed assets (excluding land and buildings) and the number of employees. These definitions are furnished in the Master Circular on CMSME.[15]

Table 3: Unified MSME Definition Adopted Under the 2016 Industrial Policy

Type of Industry		Amount of Investment in Tk (Replacement Cost and Value of Fixed Assets, excluding Land and Factory Buildings)	Number of Employed Workers
Cottage Industry		Below 1 million	Maximum 15
Micro Industry		1 to 7.5 million	16-30
Small Industry	Manufacturing	7.5 to 150 million	31-120
	Service	1 to 20 million	16-50
Medium Industry	Manufacturing	150 to 500 million	121-300
	Service	20 to 300 million	51-120

Source: National Industrial Policy. Government of Bangladesh, 2016.

The following policy instructions have been provided to the CMSME circular, which significantly impacts CMSME sector development in Bangladesh with a focus on women-owned and women-led entrepreneurs.

i. The CMSME credit disbursement target by Banks and Financial Institutions (FIs) has been set at 25% of the total loan portfolio by 2024, which reached 18.79% by June 30, 2022.
ii. To emphasise a diversified distribution of the overall CMSME credit portfolio, BB has set sector-wise distribution targets, such as at least 40% in manufacturing, 25% in Service, and a maximum

[15] Bangladesh Bank

of 35% in trading, to be followed by all Banks and Fis. This policy stance is compatible with balancing the need for access to finance in different sectors of CMSME.

iii. Banks and Fis are required to provide a 3–6-month grace period for medium-to long-term loans (from 1-year to 5-year term) to cottage, micro, and small (CMS) sector customers based on the banker-customer relationship to help them grow with the finance facility.

iv. Banks and FIs are instructed to introduce the account (loan/advance account) opening forms for CMSME customers in a prescribed short, accessible Bengali format so that the information required by the Banks/FIs can be easily understood.

v. BB has emphasised cluster financing and set the target for cluster financing by requiring all banks and FIs to implement a Cluster Financing Policy. CF is "a short and long-term financing facility for cottage, micro, small and medium size cluster entrepreneurs involved in manufacturing/service-oriented business".[16] Under the SMESPD Circular No. 05[17] dated 14 August 2022, banks and financial institutions must disburse a minimum of 50 per cent of their CMSME loans to 19 high-priority and priority clusters.[18] Besides, CMSMEs will also be able to borrow from multiple banks within the maximum credit limit.

b. Refinancing and Pre-financing Schemes

To increase access to finance at a lower rate of interest, BB has also initiated several refinance and pre-finance schemes for the CMSMEs, such as: BDT 1400 crore Refinance Scheme for Setting up Agri-based Product Processing Industries in Rural Areas; BDT 100 crore Refinance Scheme for new entrepreneur in cottage, micro and small enterprise sector; (SMESPD Circular letter: 02/2020); BDT 3000 crore Small Enterprise Refinance Scheme for Women Only; BDT 500 crore Start-Up Fund; BDT 25000 Crore Pre-finance Scheme for CMSMEs, etc. All these schemes have particular terms, conditions and customer eligibility criteria.

BB DFI alums have used their knowledge to design these policies through direct contribution or exchanging knowledge among peers. As of 31 July 2023, about 0.1 million beneficiaries have loan facilities at a concessional interest rate under these refinance and pre-finance schemes.

c. Special Incentives for Women Entrepreneurs

It is commendable that DFI alums[19] have contributed to developing and implementing women-centric policy measures and gender-responsive financing policies to promote and support women entrepreneurs (WCMSME) in Bangladesh. These policy initiatives recognise women entrepreneurs'

[16] IFIC Bank
[17] BB
[18] Cluster is defined as the summation of 50 (Fifty) or more similar/homogenous types of productions/ service providers/enterprises which are located within a specific geographical boundary which is not more than the radius of 05 (Five) Kilometers is considered as cluster.
[19] Noting that DFI incorporates a gender lens in all courses.

unique needs and challenges and aim to increase WCMSME's access to financial services. BB has implemented a series of policy initiatives, which include:

i. Directing banks and Financial Institutions (FIs) to allocate 15 per cent of CMSME loans for women entrepreneurs
ii. Special refinancing facilities are extended for collateral-free loans up to BDT 25 lac if the borrower is a woman entrepreneur or when women own at least 51 per cent of the borrowing entity.
iii. Group-based lending policies aim to benefit women entrepreneurs (WCMSME) in rural areas, emphasising encouraging, training, and adopting a cluster approach for WCMSMEs in the industry and manufacturing sector(s).
iv. Establish dedicated women's entrepreneurship help desks in bank branches to assist women entrepreneurs and advise hiring female staff for personalised support.
v. BB has set up, within the bank, a distinct "Women Entrepreneurs Development Unit" (WEDU) to expedite women's entrepreneurship, with a directive for Banks and FIs to follow suit.
vi. BB has made it mandatory for every bank and FI branch to identify and train at least three women entrepreneurs and ensure that at least one of the three trained receives financing. These directives are incorporated in the SME Master Circular 02/2019 and subsequent amendments, reflecting a comprehensive commitment to advancing women's entrepreneurship in the country.

These gender-responsive policy interventions stem from the insights gained during DFI courses, specifically "MSME Finance" and "Blind Spots Gender in Digital Financial Services". Notably, Latifa Khan, an Additional Director from the DFI alums, was directly involved in formulating this policy measure and gender-responsive financing initiatives. Nurul Amin, a DFI CDFP graduate, is the Assistant Director of the Women Entrepreneurs Development Unit.

d. Introduction of Alternative Financing Options

Lack of collateral is a major challenge for entrepreneurs, especially women entrepreneurs in Bangladesh, who want to access formal finance.[20] In 2016, BB launched a pilot credit guarantee scheme for women entrepreneurs with USD 200,000 in financial support from UNCDF to address this. Under the UNCDF-funded CGS, 12 guarantees amounting to BDT 11.1 million (around USD 130,000) were issued and distributed across 12 different clusters in eight districts of Bangladesh.

In 2020, BB introduced the risk-sharing facilities (RSF) - the Credit Guarantee Scheme (CGS) as an alternative financing option to partially cover the risks of CMSME lending aligned with the SME Policy 2019 and the NFIS-B. The guarantee issued by BB helps banks de-risk lending decisions. The CGS helps

[20] UNESCAP. 2021. MSME Financing Series No.5

to alleviate the collateral constraints of CMSMEs as the guarantee is a form of loan collateral. In 2023[21], "BB issued a Credit Guarantee Facility against term loan to CMSME sector under the BDT 250 billion refinance scheme to facilitate targeted MSME financing. Under the said guarantee facility, the interest rate for customers will be 7 per cent, and participating banks have to disburse 10 per cent of their Portfolio Guarantee Limit (PGL) to women".

e. Alternative Financial Instruments (AFI)

BB has conducted several consultation sessions with several entities over the last few years to explore ways to ease access to finance for CMSMEs through AFI. Based on these consultations, BB has approved guidelines for setting up and operating a digital platform to facilitate the financing of trade receivables of CMSMEs from corporate and other buyers. Finally, as an alternative or innovative pre-bank financing option, factoring was introduced in July 2022 to support dynamic firms in reaching the bankable stage. This digital platform has facilitated online, real-time transactions between suppliers with approved invoices and financial institutions keen on discounting these invoices, thereby reducing costs across the entire ecosystem for all parties involved. This policy intervention is a significant learning outcome from DFI courses that directly involve alums.

f. Standard Reporting Framework (SRF)

To collect data on CMSME financing, BB introduced a standard reporting framework that enables it to collect and analyse gender/sector disaggregated data through the SME web portal.[22] The SRF has proved beneficial for BB in developing evidence-based CMSME policies. According to World Bank's IFC, Bangladesh Bank's efforts have increased CMSME financing overall from a low base; however, its impact and effectiveness could be enhanced by reviewing past and present financing schemes and institutions. The AFI 2023 Case study on Women's FI in Bangladesh[23] applauds BB for making significant progress in collecting quality GDD essential for shaping gender-responsive policies and regulations. Alternatively, banks and Fis can leverage the GDD for performance evaluation and strategic analysis. BB DFI alums have contributed to this policy initiative, which has been possible from the knowledge acquired from the DFI courses.

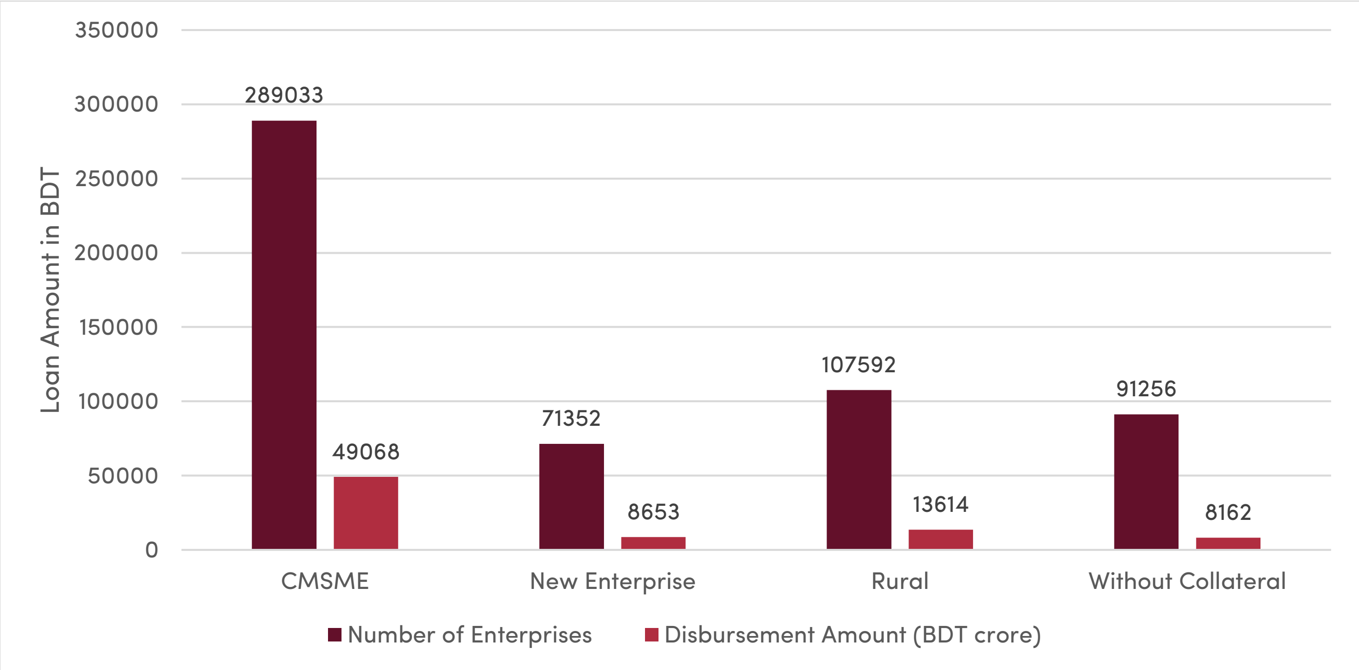
Observed CSME Impact

Bangladesh Bank's CMSME financing policy reforms have effectively promoted CMSME financing in multiple ways, with an increasing number of CMSMEs (even those without collateral) having access to

[21] BB Annual Report
[22] Bangladesh Bank SME Web Portal
[23] AFI. 2023

formal finance. As of 31 March 2023, around 289,033 CMSMEs availed loans amounting to BT 49,068 crores (USD 4,460 million). Total loan disbursed to 91,256 CMSMEs without collateral amounted to BT 8,162 crores (USD 742 million), which is commendable given the fact that "lack of collateral" is one of the critical challenges for CMSMEs to access formal finance, particularly for women-owned and led CMSMEs.

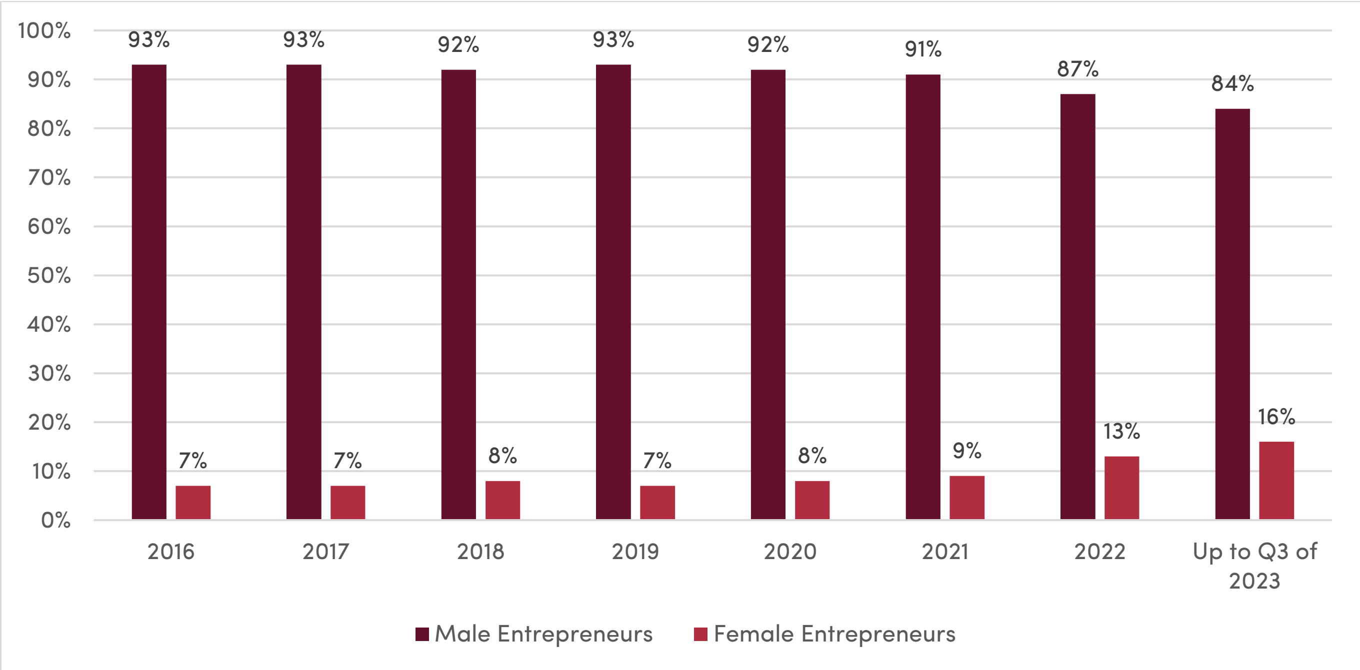
Figure 4. CMSME Loan Disbursement by Type as of March 2023



Source: BB SME Loan Statement data from Web Portal

On the same note, more MSMEs (including women entrepreneurs) have access to formal finance, and the gender gap in CMSME ownership is narrowing. As shown in Figure 5 below, of the total CMSMEs, female entrepreneurs (WCMSME) have increased from 41,675 (7%) in 2016 to 151,314 (16%) as of September 2023, representing a 9PP growth.

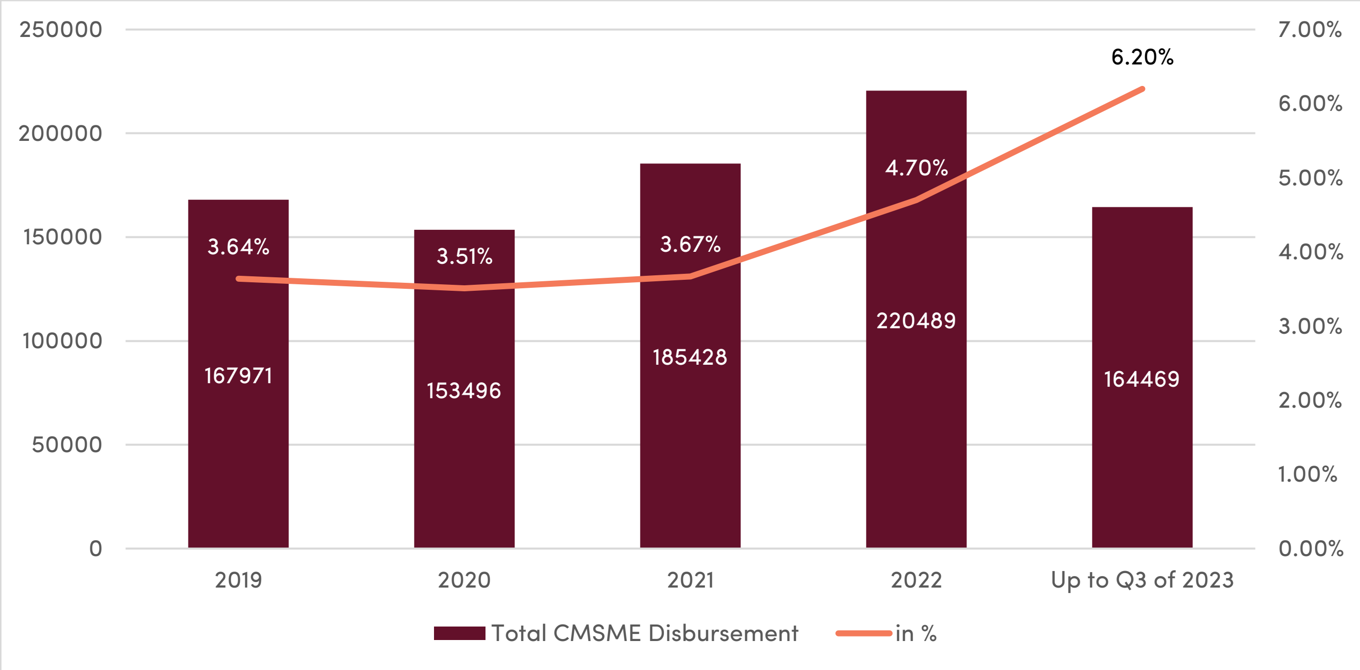
Figure 5. CMSME Ownership Distribution by Gender (2016 – September 2023)



Source: BB SME Loan Data from SME Web Portal

In terms of loan outstanding (o/s), WCMSME loan o/s almost doubled from 3.5 percent (6,025 crores BDT) of the total loan o/s in 2019 to 6.23 percent (18,398 crores BDT) in September 2023. A similar trend is observed in CMSME loan disbursement, with female CMSME's share of total CMSME loan disbursed increasing from 3.6 percent (6,109 crore BDT) in 2019 to 6.2 percent (10,192 crore BDT) in September 2023.

Figure 6. Women CMSME Loan Disbursement Trend (2019 – September 2023)



Source: BB SME Loan Statement Data from Web Portal

Other studies also corroborate these findings. For instance, the UNESCAP 2021 MSME Financing report[24] underscores "the significant well-intentioned regulatory measures by BB to support women entrepreneurs, as well as transformational regulatory developments for MFS and agent banking and efforts to stimulate the flow of venture capital" to advance MSME financing. The 2022 World Bank Enterprise Survey[25] show improvements in small and medium firms' access to bank loans/lines of credit, which stands at 37.1 per cent and 44.4 per cent, respectively, higher than the 24.5 per cent in South Asia. On the same note, the proportion of investment financed by banks in the case of small firms at 18.3 per cent is higher than 5.6 per cent for medium firms, which is commendable and could be attributed to the MSME policy reforms of the Bangladesh Bank.

However, the MSME financing gap persists. The 2019 World Bank study[26] estimates a BDT 237 billion (USD 2.8 billion) financing gap for MSMEs in Bangladesh. Similarly, lack of access to finance still holds second in the top three business constraints for small and medium firms in the Bangladesh 2022 WB

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[24] UNESCAP. 2021. MSME Financing Series No.5
[25] WBG
[26] WB

Enterprise survey. On the same note, the UNESCAP 2021 MSME Financing report[27] highlights gaps and challenges impeding MSME financing, such as a lack of coordination between MSME stakeholders and a mismatch between demand-side MSME finance needs and supply-side products and services.

2. Inclusive Payments Systems Policy Reforms

Policy Interventions in Payment Systems

Policy interventions in the payment systems have undergone a transformational phase in Bangladesh, largely influenced by the insights of the CDFP program and the active involvement of its graduates in pivotal roles within the BB. These interventions have significantly reshaped the digital commerce landscape, introducing guidelines that address key concerns and enhance consumer trust within the financial sector.

a. Guidelines for Merchant Acquiring and Escrow Services, 2023

The Guidelines for Merchant Acquiring and Escrow Services, introduced by BB in 2023, respond to the rapid growth of digital commerce in Bangladesh. The Guidelines standardise merchant acquisition policies for physical and online merchants and establish escrow accounts for e-commerce transactions. These measures aim to combat scams and bolster consumer trust in e-commerce online transactions.

BB DFI graduate Muhammad Ehsanul Kabir played a crucial role in shaping the “Merchant Acquiring and Escrow Services” and “Cash through Courier Services.” At the same time, Anwar Ullah CDFP and Joint Director, PSD, contributed significantly to his role as a member of the e-Commerce Resolution Committee [28] established by the Commerce Ministry. As a member of the 5-member drafting Committee, Anwar Ullah also contributed to the Digital Commerce Act (DCA) 2023, while Masuma Akter Happy, CDFP, participated in several consultation meetings on the DCA. Their contributions to these guidelines and DCA 2023 will enhance consumer protection, effectively address disputes arising from e-commerce and strengthen Bangladesh's digital payment landscape.

b. Trust Fund Management in Financial Services

The Guidelines for Trust Fund Management in Financial Services[29] marked a milestone in fortifying consumer trust. By emphasising transparency, robust risk management, regulatory compliance, and effective customer communication, these guidelines ensured the growth of financial services while enhancing trust among consumers.

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[27] UNESCAP. 2021. MSME Financing Series No.5
[28] https://www.tbsnews.net/economy/commerce-ministry-forms-sub-committee-e-commerce-311734
[29] https://www.bb.org.bd/mediaroom/circulars/psd/jul272022psd105.pdf

Muhammad Ehsanul Kabir's active involvement in evaluating Payment Service Providers (PSP) and Payment System Operator (PSO) licenses as a Business Proposal Evaluation Committee (BPEC)[30] member and Anwar Ullah's contributions to the "Trust Fund Management in Financial Services Guidelines" were pivotal and exemplify the DFI CDFP program's impact in shaping inclusive policy and practices.

Observed Inclusive Payment Systems Impact

E-commerce and Financial Consumer Protection

The introduction of the Guidelines for Merchant Acquiring and Escrow Services 2023 has boosted consumer confidence and instilled market discipline in e-commerce.

- The guidelines now require PSPs, banks, and other merchant-acquiring institutions to develop entity-specific onboarding policies to facilitate detailed scrutiny of merchants before onboarding, monitor their conduct to reduce dishonest practices and safeguard consumers from potential fraud.
- Merchant acquirers must collect a list of documents-national ID, e-KYC information, and trade licenses, among others-from sellers for due diligence purposes, enhancing merchants' transparency and accountability in their operations.
- The guidelines provide instructions on transactional disputes and settlement to address transaction disputes between buyers and sellers effectively, promote fair resolution, and protect consumers' rights on disputed issues.
- The guideline mandates escrow accounts, which aim to safeguard consumers' funds until the transaction is completed, enhancing consumer trust and confidence.
- This policy initiative is commended by market participants[31] such as FBCCI, E-CAB, and customers alike, especially given the growing e-commerce sector and the rampant fraudulent activities on e-commerce platforms during the COVID-19 pandemic.

While the direct impact of these guidelines is still unfolding[32], early indicators suggest improvements in e-commerce payments. For example, merchant payments through MFS increased by 8.8 times, from BDT 627.77 crore (USO 73.99 million) in 2020 to BOT 5,518.45 crore (USO 510.8 million) in 2023[33].

On the same note, reduced complaints related to fraud, refunds, and settlements from both customers and merchants signal positive changes. According to the Annual Report of the Financial Integrity and Customer Services Department 2019-2021[34] of the BB, the percentage of "cards and mobile banking"

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[30] https://www.bb.org.bd/en/index.php/about/guidelist/ Approval Procedure of Payment System Operator (PSO)/Payment Service Provider (PSP)
[31] https://www.rajbaripost.com/business/2023/10/02/bangladesh-bank-launches-escrow-implementationcommittee-eic-to-boost-e-commerce-sector-3329.html/
[32] Bangladesh's e-commerce players reel from scams. Can they win back trust?
[33] https://www.bb.org.bd/en/index.php/financialactivity/mfsdata
[34] https://www.bb.org.bd/pub/annual/ficsd/annual_report_19_21.pdf

complaints[35] relative to the total complaints decreased from 13.21% in the FY 2019-2020 to 12.34% in FY 2020-2021 exhibiting a positive trend reflecting the enhanced trust and confidence brought about by BB's initiatives. In parallel, the Digital Commerce Act 2023, nearing its final stages, has garnered substantial attention[36] from stakeholders following the public release of its draft for feedback.

On the same note, the Guidelines for Trust Fund Management in Financial Services[37] aim to safeguard customers' funds held by nonbank entities like MFS, PSPs, and PSOs in the provision of payment and settlement services. Customer funds are required to be held in trust funds to be maintained in Trust Cum Settlement Accounts (TCSA) with banks. As of 30 March 2024, all 34 licensed service providers (MFS, PSPs, PSOs) have opened TCSA. Applicants must fulfil this mandatory prerequisite before Bangladesh Bank licenses them. These guidelines have reinforced the responsible management of trust funds, protected customers' interests, and enhanced customers' trust and confidence in digital transactions, contributing to a robust payment ecosystem in Bangladesh.

Notably, leading newspapers[38], [39] underscore the Guidelines' significance in protecting customers' interests, highlighting BB's power to take regulatory actions, including imposing penalties on service providers engaging in activities against the public interest. These guidelines ensure responsible and secure fund management, directly benefiting customers and bolstering the overall integrity of the financial landscape.

3. Banking Regulation and Policy Reforms

DFI alumni have played a leading role in formulating and introducing the Refinance Scheme for Digital Nano Loans and licensing Digital Banks in Bangladesh. Several enthusiastic BB employees, notably DFI alumni such as Latifa Khanam, a CDFP graduate, actively contributed to these policy initiatives. As part of their engagement, they undertook various courses and studied global case studies.

a. Refinance Scheme for Digital Nano Loan

During the COVID-19 pandemic, several app-based online lenders rapidly expanded in Bangladesh, capitalising on the vulnerability of financially distressed people. They charged exorbitant interest rates without regulatory approval and resorted to deceit and blackmail by exploiting client's data. In response, BB formed a special committee to investigate illegal financial transactions, followed by regulatory restrictions imposed to curb these unauthorised providers.

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[35] In the absence of a separate category for e-commerce complaints, 'Cards' and 'Mobile Banking' complaints data is taken as proxy for "e-commerce" complaints.
[36] Digital Commerce Act 2023
[37] https://www.bb.org.bd/aboutus/draftguinotification/guideline/draft_trust_fund_management.pdf
[38] Central Bank Issues Guideline on MFS Trust Fund
[39] Bangladesh Bank Issues Guideline on MFS Trust Fund

In July 2020, BB permitted City Bank to collaborate with bKash Ltd. in a pilot project to allow bKash users to request and receive instant loans. The City Bank's pilot initiative successfully addressed emergency personal and business needs by offering nano loans at a 9% p.a. interest rate. City Bank provided approximately BDT 70 million (USD 636,364) in nano loans to 35,000 bKash users, achieving a 96% recovery rate with only a four percent default rate.

Following the pilot project's success, commercial digital nano loans were introduced on December 15, 2021. Approximately 160,000 customers availed these loans, resulting in a default rate of less than one percent. Prime Bank and the other three banks launched similar products, expressing optimism about the future of digital lending. These banks offer digital loans ranging between BDT 500 and BDT 50,000 to individual customers at a maximum interest rate of 9% p.a., boasting a loan repayment rate exceeding 99%.

In June 2022, BB introduced a BDT 1000 million refinance initiative via BPRD Circular-11, titled "digital nano loan" disbursements, aiming to expand financial inclusion for the underprivileged sections of the population. Subsequently, in July 2023[40], BB augmented the fund for the digital refinance scheme to BDT 5000 million, dedicated explicitly to marginalised groups. Participating banks can now disburse loans ranging between BDT 500 to BDT 50,000 to be disbursed entirely through digital channels at a maximum 9% interest rate with a six-month repayment period under the scheme.

b. Guidelines to establish Digital Bank

Across the globe, digital banks and banking systems are known by various names, such as mobile banking, online banking, neo banking, open banking, challenger banking, and digital banking units. In Bangladesh, there's a substantial mobile financial services (MFS) sector with over 110 million accounts, 52 banks providing internet banking, 60 banks facilitating electronic transactions through cards, Bangladesh Electronic Funds Transfer Network (BEFTN), Real Time Gross Settlement (RGTS), along with a considerable microfinance operation and agent banking network of 29 banks.

In early 2021, BB constituted a committee to formulate a policy for licensing digital banks in Bangladesh-notably, Md. Manirul Islam, a focal member of the licensing committee and an alumnus of the DFI, and Shaila Afrin Mousumi, CDFP, played a vital role in the process, from the committee's formation to the evaluation of license applications. The Committee extensively researched digital banking policies globally, focusing on countries like Malaysia, Singapore, Hong Kong, Philippines, Pakistan, India, and Mauritius, aiming to understand their economic landscapes, laws, culture, and education systems. The members extensively reviewed knowledge products of DFI, Consultative Group

[40] https://today.thefinancialexpress.com.bd/first-page/bb-boosts-digital-refinance-scheme-to-tk-50b-1689530338

to Assist the Poor (CGAP), and Bank for International Settlements (BIS) on the subject to align the Guidelines with global best practices and the Bank Companies Act, 1991.

The development phase involved consultations with stakeholders such as ICT and fintech experts, bankers, mobile banking service providers, and Mastercard. Additionally, peer learning visits to neighbouring countries were undertaken to observe and learn digital bank operations. After collecting extensive data and information, a policy titled Guidelines to Establish Digital Bank, 2023[41] was published on Bangladesh Bank's website on 15 June 2023.

Observed Banking Regulation and Policy Reforms Impacts

Licensing of Digital Bank(s)

Given DFI alums' high regard within the Bangladesh Bank for their expertise in digital financial services, the Licensing Committee sought their technical assistance in formulating the Digital Banking Guidelines. Md. Rashed and other DFI alumni were instrumental in providing the technical assistance to facilitate the development of the "Guidelines to Establish Digital Bank, 2023".

BB introduced a web portal on 21 June 2023 to facilitate online submission of 'Digital Bank' license applications. 52 applications were received from companies spanning diverse sectors, including commercial banks, mobile financial service providers, food delivery and ride-sharing platforms, IT service providers, and pharmaceutical companies. Three committees evaluated the applications based on business aspects, market understanding, security, and technological capabilities required for digital banks.

On 22 October 2023, BB granted initial approval to eight companies[42] to launch digital banks. Two of the eight companies (Nagad Digital Bank PLC and Kori Digital PLC) were authorised to establish full-fledged digital banks. At the same time, three (bKash Digital Bank, Digi-10, digitAll) were permitted to open digital banking wings. The remaining three companies (Smart Digital Bank, Japan-Bongio Digital Bank and North East Digital Bank) would be considered for full-fledged digital bank licenses after evaluating the service and performance of the initially approved companies. The digital financial inclusion landscape has also significantly improved, making people accustomed to DFS, agent banking, cashless transactions and mobile money.

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[41] https://www.tbsnews.net/economy/banking/52-companies-want-licences-digital-bank-685450
[42] https://www.newagebd.net/article/215651/bb-okays-in-principle-eight-firms-for-digital-bank-licence

4. AML/CFT Regulations and Policy Reforms

Bangladesh Financial Intelligence Unit

Several officials working at the Bangladesh Financial Intelligence Unit (BFIU) have studied different courses at the Digital Frontiers Institute, of which five have earned CDFP qualifications. The five CDFP graduates were consulted to assess the impact of CDFP knowledge gained in their roles at BFIU on formulating new policies and guidelines.

a. e-KYC Guidelines by Bangladesh FIU

An official from BFIU opined that different courses under the CDFP program were useful for him in better understanding of technology in business. The knowledge and skills from the CDFP program helped him contribute to the formulation of the e-KYC Guideline, 2020, which is applicable to digital financial services, financial inclusion products, Agent Banking products, products of banks, non-bank financial institutions, securities markets and micro-insurance.

b. AML/CFT Compliance of Digital Services

Bangladesh FIU published a Study Paper, "AML/CFT Regulations for Mobile Money: Policy Options for Bangladesh", in 2017, developed by a Focus Group. DFI Alum Md. Rashed was the coordinator and lead author of the Study Paper, and Md. Ashraful Alam was also a member of the Focus Group and an alumnus of DFI. The Study Paper is the foundation of AML/CFT regulations and supervision of DFS in Bangladesh. Mr. Masud Rana, CDFP, issued BFIU Circular 20, Date: 17/09/2017 for AML/CFT regulations compliance MFS providers based on the suggestions of the Study Paper.

The official responsible for analysing Cash Transaction Reports (CTR) and Suspicious Transaction Reports (STR) highlighted the value of various courses in enhancing their job performance. Specifically, the AML Compliance, Blockchain & Cryptocurrency, and Cyber Security courses equipped him with financial intelligence knowledge to efficiently perform his duties. These courses enabled him to conduct in-depth analyses, identifying suspicious connections between money laundering and cryptocurrency. The Cybersecurity course also aided in secure data management for the STR/CTR database.

Currently, the official serves as a member of two national committees: one formulating the Digital Commerce Authority Act and the other on the Cross Border Digital Commerce Policy. The knowledge gained from participating in the Regulation in Digital Financial Services course informs his contributions to these committees in developing the policies.

Furthermore, a Joint Director emphasised the impact of the CDFP course on understanding technology-based money laundering typologies, particularly given the misuse of cryptocurrency networks for illicit purposes. Another Joint Director contributed to developing an AML compliance checklist in 2022 to assess the compliance structure in Mobile Financial Service Providers (FSPs) in Bangladesh. Lastly, another official highlighted the relevance of CDFP courses, especially those related to AML Compliance and Mobile Money Operations, in better understanding mobile financial services-related money laundering activities. These courses have positively influenced his professional development by enhancing his understanding of the FATF recommendations and their application in strengthening the financial integrity of Bangladesh's financial sector through his contributions to BFIU.

Observed AML/CFT Regulation and Policy Reform Impact

Multiple studies have shown that lack of formal identification documents, low financial literacy levels, time and money poverty coupled with societal norms and cultural constraints collectively contribute to the exclusion of vulnerable populations from the formal financial system, limiting their access to and usage of formal financial services. Addressing these barriers is critical to promoting financial inclusion, starting with account opening.

The e-KYC guidelines introduced by the BFIU have revolutionised customer onboarding in Bangladesh, making it more time-efficient and cost-effective by providing different customer onboarding models. The guidelines are aligned with Bangladesh's Vision 2021 "to provide financial services at citizens' doorsteps in an easy, faster, and low-cost manner", contributing towards meeting the SDG 1 and SDG 8 targets[43] and action 9 of the National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism Strategy 2019-2021 to implement e-KYC/Digital KYC by December 2020.

According to the BB e-KYC pilot project[44], the e-KYC system will streamline customer onboarding in multiple ways:

- It aims to reduce the time required for customer onboarding from 4-5 days to 5-6 minutes.
- Reduce cost associated with customer onboarding and KYC processes by 5-10 times compared to traditional KYC processes.
- Enable financial service providers (FSPs) to onboard customers digitally to enable financial access for 30 million first-time users by 2029.
- Provide different customer onboarding models, including fingerprint and face matching.

In terms of e-KYC implementation status, as of 30 June 2023, of the total 96, 40 banks and 7 NBFIs have fully implemented e-KYC, eight banks and 6 NBFIs have partially implemented while 12 banks and 18 NB Fis are in the process of implementing. In terms of accounts opening facilitated by e-KYC, a total of 153.29 million accounts were opened by FSPs, with MFS leading the group with 97 per cent (148 million a/cs) and the remaining 3 per cent (4.5million) by banks and FIs together. The introduction of e-KYC is a significant milestone in advancing financial inclusion for Bangladesh, with MFS as the key driver.

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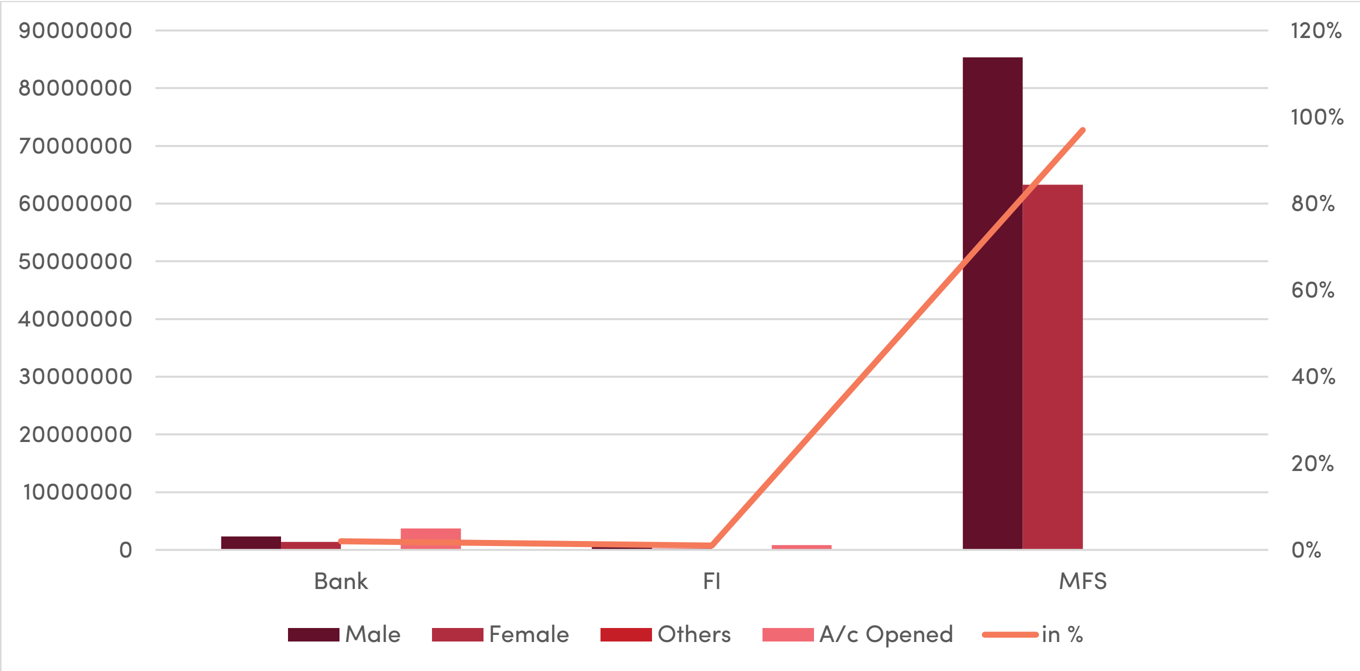
[43] The Sustainable Development Goal (SDG) Agenda -1 (one) emphasizes to put in place a sound policies and gender sensitive development strategies for poverty eradication and Agenda 8(10) of the same urges for capacity building of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.
[44] Ibid

Figure 7. Financial Accounts Opened through e-KYC



Source: BFIU Data

5. Financial Inclusion Department and the National Financial Inclusion Strategy Administrative Unit

The Financial Inclusion Department (FID) at Bangladesh Bank has embarked on a transformative journey through the Certified Digital Finance Practitioner (CDFP) program. Over the past three years, FID officials and the National Financial Inclusion Strategy Administrative Unit (NFISAU) have actively participated in various digital finance and financial inclusion courses. These immersive learning experiences have significantly enriched their knowledge, which they have directly applied to their official responsibilities, positively impacting multiple areas of responsibility.

Observed FID and NFISAU Impact

Key highlights of the CDFP program impact include:

- **Policy Influence:** Having completed 16 courses, a dedicated FID official was pivotal in drafting the Financial Literacy Guidelines for Banks and Financial Institutions in 2022[45] to create an empowered nation a financially literate society with the proper knowledge and skills for making responsible financial decisions. CDFP graduates have successfully integrated program insights into policymaking, exemplified by the passage of the Secured Transaction (Movable Collateral) Act, 2023, which increases MSMEs' access to bank finance by pledging movable assets.
- **Practical Application:** Officials have highlighted the practical impact of courses such as Digital MSME Finance, which have shaped MSME-targeted policy initiatives.
- **Enhanced Knowledge:** NFISAU officials benefiting from CDFP courses have accelerated their understanding of financial inclusion, inclusive payment systems, mobile money operations, data security, and their application in digital financial services.
- **Strong Research Skills:** The program's focus on research has empowered CDFP fellows to address economic challenges and drive financial reforms in Bangladesh.

Conclusion

These recommendations and conclusions are based on the observed impact of the DFI's program on Bangladesh Bank's participants and its outcome on Bangladesh Bank's role in facilitating the country's transition to a "smart and innovative Bangladesh" through creating an inclusive and innovative digital finance ecosystem.

Overall, DFI training programs have proven to be powerful catalysts in advancing digital financial inclusion in Bangladesh, particularly through the contributions of DFI alums to policy and regulatory reforms in e-KYC, CMSME financing, gender-inclusive finance, financial consumer protection, inclusive payments systems, and digital banks.

These policy reforms have yielded positive changes at three levels, as evidenced by the impact areas and financial inclusion data:

i) Strengthening Bangladesh Bank's Human Resources Capacity Building

> *"The knowledge and skills I gained from the DFI CDFP program helped me contribute towards the development of e-KYC Guideline, 2020." - **KII, Bangladesh Financial Intelligence Unit***

45 BB

*Md. Manirul Islam and Shaila Afrin Mousumi, DFI graduates contributed majorly towards the establishment of the Digital Bank Licensing Committee and evaluation of 52 potential applicants resulting in "in principle" approval to eight applicants. - **DFI Alumni, Bangladesh Bank***

*Between 2016 - 2023, DFI has built the capacity and capabilities of 855 unique participants from Bangladesh in three key programmes (DFS, IIPS, DFIS). In terms of gender, 76.27 percent are male, 22.31 percent female, and the remaining 1.42 percent others. Of the total participants, 709 are employees of Bangladesh Bank. - **DFI Alumni, Bangladesh Bank***

ii) Increased Access to and Use of Inclusive and Quality Financial Services by CMSMEs and Financially Excluded Population

Financial Inclusion	• 53% of adults have an account (2021) • 43% of female adults have an account (2021)
Digital Financial Inclusion	• 35% of Bangladeshi adults have mobile money accounts (2021) • Female adults prefer mobile banking services over traditional banking. • MFS is a key driver of digital financial inclusion.
CMSME Financing	• Total loans to MSMEs tripled from 2010 to 2019 • Increased number of WMSMEs now access and use formal finance.
e-KYC	• e-KYC guidelines launched in 2020 • 153 million financial accounts opened as of June 2023

Digital Payments	• One in five transactions occur through digital channels. • Enhanced customer trust and confidence in digital payments.

"The massive digital transformation that occurred in the last decade is the single most important contributor to women's financial inclusion in Bangladesh." - ***AFI 2023 Bangladesh Case Study***

"The significant well-intentioned regulatory measures by BB to support women entrepreneurs, as well as transformational regulatory developments for MFS and agent banking and efforts to stimulate the flow of venture capital" to advance MSME financing. - ***UNESCAP 2021 MSME Financing Report***

"Introduced to the country's financial sector just ahead of the pandemic, e-KYC helped to onboard women users and create business cases. Now, ***women can and are encouraged to open an account without sharing data with any third party, do financial transactions remotely using the app****. Bangladesh Bank highlights a fully functional system of* ***digital ID records with access to all market participants*** *who are onboarding clients as a crucial enabler." -* ***AFI. 2023. Women's Financial Inclusions, DFS and Covid-19 Policy Response; Case of Bangladesh***

iii) Facilitated Digital Transformation of Financial Services Providers in Bangladesh

"Bangladesh Bank has taken several steps to promote an ***enabling digital financial services regulatory framework*** *in Bangladesh. They have launched a* ***Regulatory Fintech Facilitation Office*** *to facilitate digital financing initiatives in the country. The BFIU has introduced* ***e-KYC guidelines*** *to enable banks and NBFIs to digitally onboard customers. These efforts by Bangladesh Bank have* ***been instrumental in creating an environment that fosters the growth of digital financial services*** *in the country." -* ***Association of Bankers, Bangladesh Limited (ABB) and PWC. May 2023. The Next Banking Revolution in Bangladesh - Driven by Digital Transformation***

Recommendations

By developing and implementing inclusive policies, meeting financial inclusion challenges, and fostering collaboration with key stakeholders, Bangladesh Bank's commitment to adapting its policies and regulatory reforms with changing times is commendable. However, challenges and gaps persist and addressing them through well-designed training programs is crucial to promoting an inclusive, sustainable and stable financial system. These suggestions and recommendations draw upon the lessons learnt from the most impactful DFI courses, Bangladesh's NFIS priority areas, and the needs of market participants.

MSME Finance: To further promote CMSME financing, which is a priority sector for Bangladesh under the NFIS 2021-2026, curated training programs to equip policymakers and financial regulators with the required knowledge and skills to address key challenges MSME face such as MSME financing gap, informality in CMSMEs, unfair lending practices, underdeveloped credit infrastructure, underutilized collateral-free loans, lack of MSME specialized finance institutions, and limited institutional coordination for MSME development through MSME targeted policies is recommended.

Green Finance: Bangladesh Bank is a forerunner in developing inclusive green finance policies and might require capacity building on green finance, green taxonomies, and MSMEs' green financing.

Financial and Digital Literacy Programs: Design and deliver training programs in financial and digital literacy to equip Bangladeshi policymakers and regulators with the required knowledge and digital skills, which will facilitate the digital transformation of the Bangladeshi financial sector and ensure the country's smooth transition to a digital economy.

Consumer Protection for DFS: Develop consumer protection for digital financial services (DFS) program to drive digital financial inclusion. Impart tailored training programs to financial regulators and policymakers on formulating and implementing robust financial consumer protection to enhance customers' trust in DFS and promote healthy market competition.

Women's Financial Inclusion: Equip Policymakers and regulators to promote gender mainstreaming in policies to advance women's financial inclusion-a key policy target in NFIS-by encouraging Bangladeshi officials to participate in the Bangladeshi adapted version of the DFI Gender Equality Changemakers Programme.

To meet the capacity-building needs of Bangladeshi financial regulators, policymakers, and both supply and demand sides, the Digital Frontiers Institute can design, develop, and implement customised training programs. These programs could be informed by a detailed training needs assessment study and supported by mentorship initiatives to achieve impactful outcomes.

Appendix 1: List of Interviewees

	Organisation	Participants in Consultations
Bangladesh Bank	Financial Inclusion Division	1. Ms. Shoheli Afrin, Additional Director 2. Mr. S.M. Zubayer Hussain, Joint Director 3. Ms. Nisat Afroz Binni, Joint Director 4. Mr. Mohammad Shahjahan, Additional Director 5. Mr. Milton Biswas, Joint Director 6. Mr. Md. Sharfuzzaman, Joint Director
	Bangladesh Financial Intelligence Unit	1. Md. Masud Rana, Additional Director 2. Muhammad Omar Sharif, Joint Director 3. Hasan Kazi Taufikur Rahman, Joint Director 4. Mustafa Najmus Shantanu, Joint Director 5. Md. Musfiqul Islam, Deputy Director

Appendix 2: List of Acronyms

BB	Bangladesh Bank
BPEC	Business Proposal Evaluation Committee
CDFP	Certified Digital Finance Practitioner
CTR	Cash Transaction Reporting
CMSMEs	Cottage Micro, Small and Medium Enterprises
DFI	Digital Frontiers Institute
DFS	Digital Financial Services
eKYC	Electronic Know Your Customer Systems
FIU	Financial Intelligence Unit (Bangladesh Bank)
ICT	Information and Communications Technology
MFI	Microfinance Institution
MFS	Mobile Financial Services
MMR	Monitoring and Measurement of Results
MNO	Mobile Network Operator
PSO	Payment System Operator
PSP	Payment Service Providers
STR	Suspicious Transaction Report

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