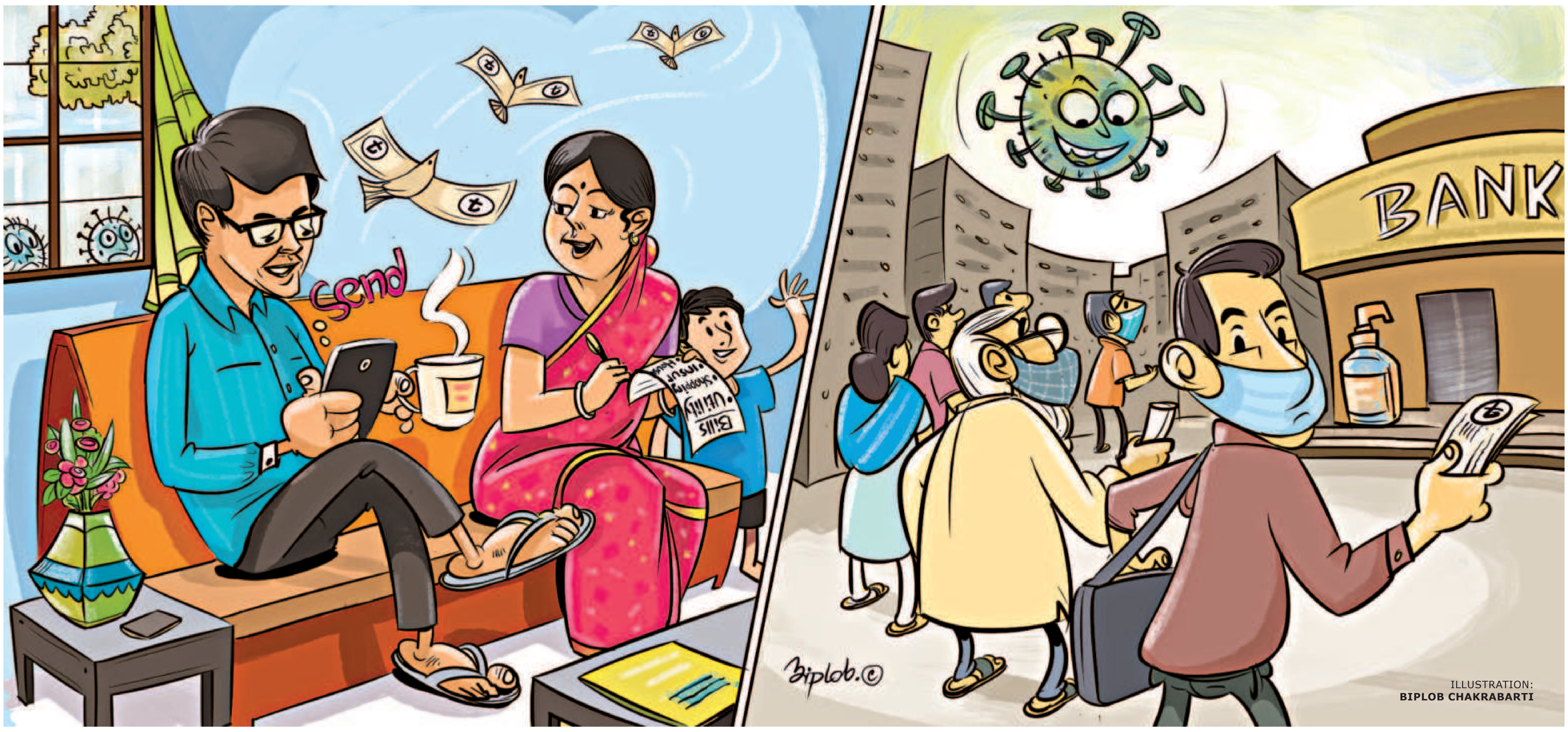

ILLUSTRATION: BIPLOB CHAKRABARTI

In search of digital financial inclusion in Bangladesh

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Bangladesh has been experiencing rapid financial inclusion in sync with faster adoption of digital technology. The central bank of Bangladesh is statutorily mandated to support attainment of the country's developmental aspirations along with maintaining price and financial stability. It made an honest effort to respond to this call by strategizing financial inclusion to uphold the domestic demand, particularly following global financial crisis during 2007-08.

In fact, the focus on financial inclusion by Bangladesh Bank (BB) has further increased recently as a part of its pro-active response to Covid-19. Despite many challenges, the pandemic has also accelerated the digital transformation of the businesses, including MSMEs benefiting widely from the pioneering moves of BB for multifaceted financial inclusion.

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Financial inclusion remains a policy priority in Bangladesh, as reflected in its National Financial Inclusion Strategy 2020-2024, which was launched in 2019 to further strengthen the regulatory moves of BB.

The goals of this strategy are to:

1. Increase financial deepening
2. Strengthen payment systems and service delivery
3. Establish a robust data and measurement framework
4. Promote financial literacy and consumer empowerment
5. Broaden and deepen financial inclusion for women, people affected by climate change, and other underserved segments of the population
6. Upscale digital financial services and fintech
7. Strengthen the policy and regulatory environment
8. Fortify the risk management of financial inclusion initiatives
9. Strengthen insurance services
10. Reinforce capital market services
11. Strengthen microfinance
12. Strengthen quasi-regulated financial service providers including PKSF

As indicated above, this is a holistic and well-coordinated policy move to align all the relevant stakeholders, including ministries and financial authorities. However, BB remains the key anchor here. It has been further demonstrating its prowess in pushing the financial inclusion agenda during the pandemic.

It has been working very closely with the government and other regulatory authorities in designing and implementing several stimulus packages to ease the impact of the pandemic with special focus on reaching the badly hurt micro, small and medium enterprises. Apparently, this inclusive financing support has been very helpful in initiating a robust recovery process out of the woods of the pandemic, even though the larger entrepreneurs have been better placed to take advantage of these financial facilities. The implementation of the stimulus packages for the MSMEs has been picking up in recent days, however, as BB remains focused on it.

It may be noted that BB has been promoting inclusive financing with particular attention to the underserved segments of agriculture and SMEs for many years, particularly in the wake of the global financial crisis. Environmentally benign "green" output processes were also adopted by the central bank to promote inclusive sustainable development. Priority to women entrepreneurs in financing access figured importantly in policy initiatives of BB. In fact, it has been trying to touch the ground to change the real economy for people living at the bottom of the societal pyramid.

PHOTO: STAR

Indeed, Bangladesh has been performing far better than many of its peers in terms of fending off the effects of the pandemic-induced economic shocks. But it is yet to attain the macro-economic objectives that were set prior to the pandemic.

The massive countrywide thrust in promoting inclusive, green financing began with sustained ongoing sensitization and motivation campaigns to take onboard all banks, financial institutions, and clientele group stakeholders. The motivational campaigns, paying off richly in forging enthusiastic engagement of all banks and financial institutions – state-owned and private sector, local and foreign – continues as a full-blown initiative for firmly ingraining socially and environmentally responsible financing in the institutional ethos of our financial sector.

BB's policy supports for inclusive and sustainable financing included: (i) consultatively setting priorities and targets of inclusive and green financing, aimed at attaining and maintaining adequacy of financing in the underserved areas; (ii) massive up-gradation of the payment system and the financial sector IT infrastructure enabling the advent and rapid growth of cost-efficient off-branch online/mobile phone/smart card-based financial service delivery; (iii) consultatively drawn-up regulatory frameworks and guidelines for mobile phone/smart card-based and other off-branch service delivery modes, green banking, environmental risk assessment, and so forth; (iv) making sure that enough rural branches and, of late, sub-branches/booth-branches are established to reach the unbanked in a cost-effective way using latest digital technology; (v) macro prudential regulations favouring lending for green alternative of traditional options; (vi) modest extents of low-cost refinance lines against SME and green financing, funded jointly by BB and external development partners.

BB's success in developmental central banking has become even more relevant in the present context of the post-pandemic economic recovery. As was the case during the last global economic slowdown (in 2008-09), the world as a whole and countries like Bangladesh began to face a massive socio-economic slowdown originating from supply-chain dislocations and fall in domestic demand. Of course, after about two years since the onset of Covid-19, the global economy was poised to stage its most robust post-recession recovery in 80 years. But the fast-expanding Omicron variant of the virus may create some obstacles to the global recovery process which was well on its way forward. And experts are rightly fearing that the recovery will be uneven, particularly in the new context.

Bangladesh, however, appears to be an exception in still cruising at an accelerated six plus percentage point of growth rate while there is a deceleration in global growth rate, as recently predicted by the World Bank. Given its demonstrated ability of achieving highest rate of nominal GDP per capita in the emerging Asia for almost a decade, this is not surprising. Notably, more than 60 percent of this growth has been originating from the consumption-pushed domestic demand where financial inclusion has been playing a significant role.

Indeed, Bangladesh has been performing far better than many of its peers in terms of fending off the effects of the pandemic-induced economic shocks. But it is yet to attain the macroeconomic objectives that were set prior to the pandemic. Bangladesh will have to take a course that is going to be significantly challenging (due to the situations in the global arena mentioned above). And in this context, the developmental role of the central bank needs to be re-emphasized.

The policymakers and the entrepreneurs of Bangladesh today, need to look more inward. The authorities need to make sure that the credited flows are directed to enable spending on nationally produced goods and services; to invest in productive capabilities and creating more jobs; to enhance social protection; and to ensure excess liquidity does not create further inflationary pressure. In fact, in the wake of falling revenue and rising public debt, experts felt that there was little to no alternative to the central bank but to expand its balance sheet. And BB did not hesitate to follow this path, knowing fully that keeping the economy liquid was more important than worrying about inflation.

When the economy started recovering the central bank began to balance its act by mopping up the excess liquidity through selling of USD and government bonds. The floating of digital trading of government bonds in the secondary market platform of Dhaka Stock Exchange has also been a smart move to manage debt market digitally.

In this context, expansion of digital financial services as part of BB's inclusive finance campaign has become even more relevant today.

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