

2019

Report on the First Enablers Network Discussion



Policy Research Institute of
Bangladesh

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On the 12th of November, 2019, the Policy Research Institute of Bangladesh (PRI) held the first Enablers Network Discussion on Bangladesh Digital Financial Services (DFS) under the aegis of a project “Policy Advocacy Initiative (PAI)” under a partnership with Bill and Melinda Gates Foundation. The session was moderated by Dr. Zaidi Sattar, Chairman, Policy Research Institute of Bangladesh followed by keynote presentations by Dr. Bazlul Haque Khondker, Director, PRI and Dr. M.A. Razzaque, Research Director, PRI. The event was organized as a closed-door deliberation and by invitation only. It brought together some of the distinguished researchers, private sector business leaders, representatives and policy makers of the country who have been directly and indirectly involved in work related to digital financial services.

Dr. Bazlul Haque Khondker commenced the event with a comprehensive explanation of the Policy Advocacy Initiative (PAI) on Bangladesh Digital Financial Services. His detailed presentation portrayed the primary objectives of the project and highlighted the three main studies that will be undertaken over the course of the project. The primary outcomes and the roles of the stakeholders were carefully outlined during his presentation.



In his detailed presentation, Dr. Razzaque carefully explained the development context and contents of the first study of the PAI on *‘improving efficiency in the G2P delivery process through mainstreaming and updating identity infrastructure’*. The presentation shed light on the increasing rate of financial inclusion that Bangladesh has been experiencing today, courtesy to mobile phone revolution and DFS. However, despite the impressive pace of financial inclusion, the access to financial services is still not equally shared by men and women.

The presentation further portrayed an extensive analysis on the Government-to-Person (G2P) Payment System and the rationale behind direct transfers through G2P. The discussion stressed on the new generation G2P which allows expanded recipient experience, freedom to select and switch providers and promotes quality services by introducing interoperable digital financial ecosystem and competition among the service providers. The potential impacts of an efficient MFS-based G2P system has also been discussed during the presentation. According to PRI estimates, DFS-based G2P for disability benefits could save up-to \$23.15 million annually.

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Digitization of G2P payments could save up to \$15 million annually for the government (a2i and Pi strategy (2016)).

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A comprehensive account of the findings from initial piloting of digital G2Ps has also been discussed during Dr. Razzaque's presentation. The lack of a single-registry Management Information System (MIS), absence of proper grievance redress system, high account opening fees and lack of adequate technological knowledge among beneficiaries and were noted as the primary findings from the initial piloting of digital G2Ps officials (Source: a2i, 2017). Additionally, the existing G2P architecture and, inter-linkages between the MIS and G2P Payment system were also highlighted during the discussion.

Mr. Azizul Alam, Additional Secretary, Finance Division, Ministry of Finance, followed with a detailed presentation on MIS Integrated G2P Payment System for Social Protection Programmes. Major social security programmes in terms of budgetary allocation (2019-20), conditional and unconditional cash transfers, work fare programme were comprehensively deliberated during his presentation.

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"The MIS integrated G2P System by Finance Division allows verification with NID, eliminates ghost beneficiaries and avoids duplication of social security services"

Mr. Azizul Alam

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Based on a research study on Payment System for Social Protection, 2017, he outlined the disadvantages of the existing payment systems in terms of delays in receiving money, weak information systems, inadequate monitoring and accountability, vulnerability to duplication and fraudulent payments and inconvenience for beneficiaries especially for the old, disabled, sick and pregnant. He stressed on how the G2P payment system proved to be efficient and beneficiary friendly. In addition, a detailed account was given on the piloting of the G2P payment system on old age, maternity, widow and disability allowance. The impacts and implementation challenges of MIS were also discussed by him.

A key issue debated during the session was Bangladesh Bank's rationale to employ three different structures under the regulations of Mobile Financial Services (MFS). While the target customer and the services provided under the three structures remain relatively same, the

necessity of having diverse regulations and protocols for each of them was questioned by Mr.

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“We are not making things easy for the customers as each service is run under different rules and regulations, has different limits and pricing”

Mr. Kamal Quadir

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Kamal Quadir, CEO, BKasH Limited. He accentuated on the need of bringing all services under one set of rules and regulations to make things simpler for banking financial institutions (BFI), Bangladesh Bank (BB) and, the beneficiaries. Agent liquidity was another issue that received spotlight during his discussion. Catering to requests of cash-out, top-ups and airtime even at the most remote parts of the country requires agent liquidity. Failure to ensure liquidity when a cash-out request is made puts back the beneficiary to the glitches faced at banks. Mr. Quadir mentioned this as one of the sectors that needs further attention.

A crucial issue brought up by Md. Ashraful Alam, Country Project Coordinator, SHIFT, UNCDF, was the lack of connectivity between delivery and selection of services.



While he appreciated the tremendous job done in creating initiative and building infrastructure, he shed light on how every section has been kept isolated from one another with no concern of the progress or lags observed in other sections. Once again, the suggestion on removing the siloed state and moving towards an integrated approach was presented. Two of his primary suggestions were:

- 1) Mapping of services that need to be delivered through digital channel and,
- 2) Learning from world's best practices on DFS and have our home grown model.

He also emphasized on the need of a separate competition policy for the financial sector/services. Although there already exists a competition commission, the extent of its activities in the sector of DFS is still under question. It is thus important to analyze the effectiveness of the existing policies for DFS and MFS and take necessary measures in the right direction.

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"We don't need to copy other countries...learn from World best practices and have our home grown model"

Md. Ashraf Alam

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He further highlighted the need of a comprehensive demand side survey for financial services and products in order to effectively reflect the preferences of the beneficiaries. Based on the financial capability survey and demand side survey, a comprehensive financial literacy strategy can be undertaken by the government.

Mr. Alam strongly endorsed the need of incorporating knowledge of digital services and digitization into the education system of the country. In the light of this suggestion, Ms. Sherifa Amreen, IDLC Finance Limited, highlighted IDLC's steps in implementing school and college level financial literacy programmes and e-learning which she believes can go a long way if practiced at a larger scale.

Mr. Sabbir Hossain, Deputy Managing Director and Chief Operating Officer, BRAC Bank, mentioned the tremendous progress BRAC has shown over the years in digital infrastructure. From the point of stability, BRAC Bank has not witnessed any hiccups so far. He further mentioned that BRAC is investing in state of the art mobile banking system that will become effective early next year.

In light of Mr. Kamal's comment on bringing all services under one set of regulations, Mr. Debdulal Roy, Executive Director, Programming, Bangladesh Bank, mentioned why it may not be viable for a developing country like Bangladesh to accommodate the DFS providers under the same policies and clauses. Unlike developed countries, the procedures here are not pre-set, thus when new businesses enter the market, controllers and protocol maintainers set the rules accordingly to handle them.

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Largely due to DFS and MFS, the financial inclusion rate in Bangladesh became 50% in 2017 from 32% in 2011.

However, currently BB is trying to establish a unified payment structure which will allow all payments, transactions and transfer of money through MFS to be integrated under one platform. Additionally, the plan to introduce local currency cards is also on track. If properly introduced, it will reduce the per transaction commission cost to 1.8 percentage points from the 2+ percentage points currently in practice.

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Establishing individual credit rating in the country is also under plan. As mentioned by Mr. Roy, a primary problem with this initiative may be the need of adequate data that is to be collected from different platforms. If individual credit rating is successfully established, it will make provision of loan at the root level extremely easy.

Mr. Roy emphasized on the issue of identity infrastructure in Bangladesh. Having access to identity or NID data through the ICT Ministry was initially problematic however, the issue is now being addressed with the hope of establishing a portal by next year that will give direct access to NID data.

He further mentioned that the ICT Ministry is giving technical support to escalate the pace of innovative work within the ministries. While some ministries and divisions are advancing positively, others are lagging behind due to issues with funding and, the lack of surveys. However, the Government has set its target to bring all the divisions and ministries under automation by 2020 which will allow the screening of the selection criteria more efficient.

Bangladesh Bank is also currently testing connectivity between National Payment Switch (NPS), MFS and DFS. At present, NPSB is processing interbank Automated Teller Machines (ATM), Point of Sales (POS) and Internet Banking Fund Transfer (IBFT) transactions, the services of which are available 24/7. Through NPS, a significant amount of payments is being undertaken including government to citizen payment.

BB's current policy states that MFS and any processing of transactions related to MFS must be processed through a bank. Thus BB is currently trying to connect NPS and MFS via banks. A new version of Electronic Fund Transfer (EFT) has been deployed that will allow approximately one crore transactions to take place per session. The current EFT is used to undertake transactions from banks and businesses to citizens.

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"In a developing country the rules and procedures are not pre-set... in order to accommodate everyone, we need to keep various policies and clauses"

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Mr. Debdulal Roy



The discussion was concluded by positive comments from the members of the enablers network. The participants commended PRI and Bill & Melinda Gates Foundation for a very timely discussion on an important subject and expect to contribute in building a high quality, comprehensive and constructive PRI research on the three primary studies.