

Sustainable and Inclusive Banking

6.1 The concern for environmental sustainability and inclusive growth has given mass recognition to the concept of corporate social responsibility and inclusive finance. The potential benefits of the concept has gained the interest of the regulatory authorities, society, NGOs, employees, customers as well as the international bodies to the issue. In this regard, the concern for environmental sustainability and inclusive growth by the banks has given rise to the concept of Green Banking, Sustainable Finance and Financial Inclusion. In an emerging economy like Bangladesh, environmental management needs to be the key focus area of the business fraternity and especially the banking industry being the major intermediary. Addressing environmental and social risks associated with financing activities by banks/FIs is a 'must do' step in credit approval, monitoring and evaluation. Accordingly, Bangladesh Bank has also integrated issues of socially responsible initiatives and financial inclusion along with core banking activities of banks/FIs driving towards sustainable banking practices. Sustainable banking mainly focuses on three

broad categories—green banking, corporate social responsibility and financial inclusion.

Green Banking

6.2 Green banking initiatives of Bangladesh Bank (BB) has broadly categorized into the following aspects: effective policy initiatives, stricter monitoring of green banking activities of banks and NBFIs, refinance support from BB in diverse green products/sectors/green projects/initiatives and BB's own initiatives for environmental management.

Policy Initiatives

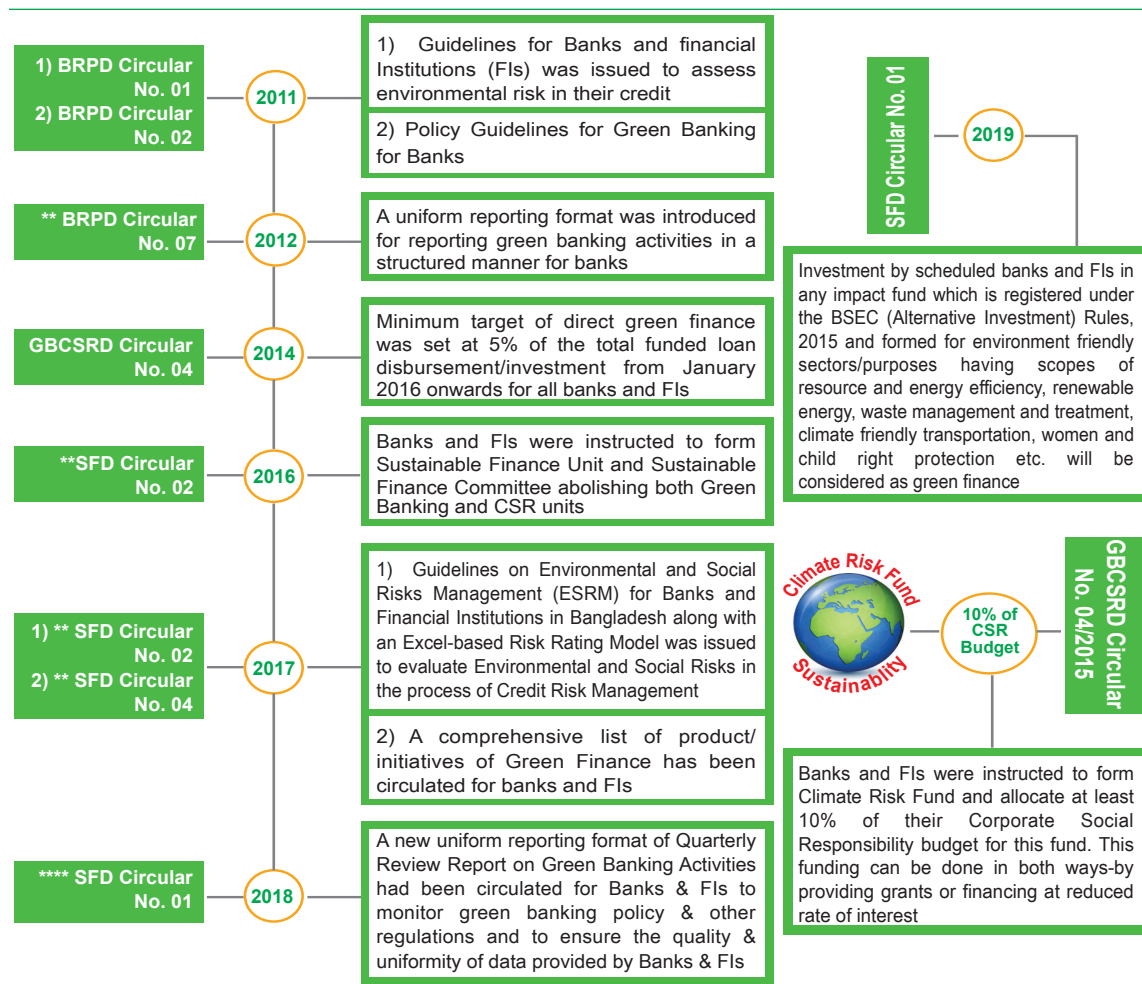
6.3 Bangladesh Bank addressed Environmental Risk Management for the first time in 2011 and Policy Guidelines for Green Banking for Banks in the same year. In 2013, Financial Institutions (FIs) were brought under green banking activities. Meanwhile government's development plans including National Sustainable Development Strategy (NSDS) 2010-2021, Perspective Plan of Bangladesh: 2010 – 2021, 7th Five Year Plan, globally adopted Sustainable Development

Table 6.1 Green Finance in FY20

(million BDT)

Types of Bank/FI	Category of Green Finance								Total
	Renewable Energy	Energy Efficiency	Alternative Energy	Waste Management	Recycling & Recyclable Product	Green Brick Manufacturing	Green Establishment	Misc.	
SOCBs (06)	7.48	0.00	0.00	660.05	290.85	363.25	579.85	7.43	1,908.91
DFIs (02)	8.33	0.00	0.00	0.01	0.00	0.00	0.00	1.49	9.83
PCBs (40)	1,979.41	6,398.37	10.08	8,878.87	8,298.55	8,402.90	3,2737.93	2,962.65	69,668.75
FCBs (09)	608.60	327.70	0.00	283.80	4.60	0.00	33,072.40	35.59	34,332.69
Bank's Total	2,603.83	6,726.07	10.08	9,822.72	8,594.00	8,766.15	66,390.18	3,007.16	1,05,920.18
FIs (33)	942.36	2,819.03	6.00	240.00	272.69	432.13	350.00	233.00	5,295.20
Grand Total	3,546.19	9,545.09	16.08	10,062.72	8,866.69	9,198.28	66,740.18	3,240.16	1,11,215.39

Source: SFD, BB.

Chart 6.1 Policy Initiatives for Green Banking

Goals (SDGs), Combating Covid-19 have been considered during policy formulation and monitoring of green banking activities by banks and NBFIs. Chart 6.1 depicts green banking policy initiatives.

Green Finance

6.4 The total amount of disbursement as green finance during FY20 has been BDT 105.9 billion by Banks and BDT 5.3 billion by NBFIs. Category-wise amount of green finance by banks and FIs are given in Table 6.1 and the percentage in Chart 6.2 respectively. Chart 6.3

shows the trend in total green finance (directly disbursed) by Banks and NBFIs during last 5 years and a significant upward trend from FY17. Chart 6.4 shows the trend in the percentage of green finance of total funded loan disbursed during last 5 years and a gradual upward trend from FY17.

Environmental and Social Risk Management

6.5 Environmental and Social Risk Rating (ESRR) is obligatory above the threshold as mentioned in guidelines on ESRM for banks and NBFIs. The number of projects rated

by Environmental and Social Due Diligence (ESDD) checklist during the year is 63,267. Total amount of BDT 2,104.11 billion disbursed in 55,825 rated projects in FY20. Chart 6.5 shows the trend in ESRR by banks and NBFIs during last 5 years.

Climate Risk Fund

6.6 Total amount of BDT 476.8 million has been utilized from climate risk fund by banks and NBFIs in FY20. This amount of Taka has been utilized as grant and no concessional loan.

Online Banking and Energy Efficiency

6.7 Green banking policy has pursued the banks to establish online branches and bring the branches powered by solar energy. The number of branches powered by solar energy was 610 at the end of FY20.

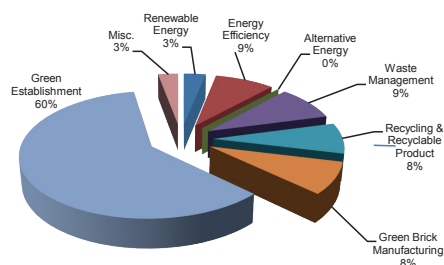
BB's In-house Environmental Management

6.8 BB has taken a number of rigorous initiatives to make its in house operational activities more environment friendly, energy efficient and technologically advanced ones. Chart 6.6 exhibits the significant steps taken towards in house green practices by BB.

BB's Refinance Schemes for Green Products/Initiatives

6.9 A revolving refinance scheme of BDT 2.0 billion was established in 2009 with a view to broadening finance for green products or initiatives at lower cost of fund which increased to 4.0 billion subsequently. Initially, 6 green products or initiatives were identified to extend the refinance facility under this scheme. Later on, considering the market demand and expert opinions from the technical advisory

Chart 6.2 Share of Category-wise Green Finance in FY20



Source: SFD, BB.

Table 6.2 Disbursement trend of BB Refinance Scheme for Green Product/Initiatives

Product	(million BDT)				
	FY16	FY17	FY18	FY19	FY20
Bio Gas	84.8	46.6	10.5	4.56	1.24
Solar Home System	114.7	35.3	0	0.19	0.45
Solar Irrigation Pump	0.6	0	0	0	0
Solar Assembly Plant	16.3	0	0	0	0
Solar Mini Grid	10	0	0	0	0
Effluent Treatment Plant	58	179.6	60	108.44	132.5
HHK Technology In Brick Kiln	177.8	10	0	5	100
Vermicompost	1.6	1.3	0	0.79	1.26
Green Industry	400	0	500	152.33	198.7
Safe working Environment	35.7	55.3	81.97	39.96	88.1
Organic Manure From Slurry	0.2	0.1	0	0	0
Paper Waste Recycling	20	20	0	0	0
Energy Efficient Technology	0	0.6	13	10	46.29
Total	919.7	348.8	665.47	321.27	568.54

Source: SFD, BB.

committee, time to time experts and stake holders' consultations, Bangladesh Bank has enhanced the eligible green products/initiatives for refinance under the scheme from 6 to 55 (Table 6.3) till FY20.

6.10 Participatory Banks/ Financial Institutions (PFI) are allowed to charge maximum interest rate of 7.0-8.0 Percent on financing in green products/initiatives under the scheme. However, due to the consideration of Government's priority to agriculture sector "Solar Irrigation Pumping System" has been given priority over the conventional diesel

and electricity run pumps. In accordance with the Government's policy, Bangladesh Bank has set maximum interest rate at 7.0 percent for financing of Participatory Banks/Financial Institution (PFI) in 'Solar Irrigation Pumping System' under the refinance scheme.

6.11 The cumulative amount refinanced under the scheme up to June, 2020 stood at BDT 4,687.1 million. In FY20, total disbursement under the BB's refinance was BDT 568.5 million. The disbursement trend from FY16 to FY20 and product wise disbursement figure are presented in Table 6.2 and Chart 6.7 respectively.

Financing Brick Kiln Efficiency Improvement Project Supported by the Asian Development Bank (ADB)

6.12 Asian Development Bank (ADB) supported revolving relending facility – "Financing Brick Kiln Efficiency Improvement Project" – was established in Bangladesh Bank (BB) in June 2012 with a view to improving the brick sector especially environment friendly brick kilns through efficient use of technology and energy resulting in reduced Green House Gas (GHG) and Suspended Particulate Matter (SPM). The total amount of this relending facility is USD 50.0 million. The project has two parts – Part-A: USD 30.00 million is for conversion of Fixed Chimney Kiln (FCK) to Improved Zigzag Kiln and Part-B: USD 20.0 million is for establishment of new Vertical Shaft Brick Kiln (VSBK), Hybrid Hoffman Kiln (HHK) and Tunnel Kiln. Total USD 50.00 million equivalent to BDT 4039.7 million relending facility has been disbursed to 19 subprojects through 19 Participating Financial Institutions (PFIs) till December 2019. The tenure of the project ended in December 2019 with full disbursement.

Table 6.3 List of Eligible Green Products/ Initiatives under "Refinance Scheme for Green Products/ Initiatives"

Sl. No	Green Product/Initiatives
1	Solar Home System
2	Solar Pico Grid
3	Solar Nano Grid
4	Solar Micro Grid
5	Solar Mini Grid
6	Solar Park
7	Net Metering Rooftop Solar System
8	Solar Irrigation Pumping System
9	Solar Pump for Drinking Water
10	Solar Photovoltaic (PV) Assembly/Manufacturing Plant
11	Solar Cooker Assembly/Manufacturing Plant
12	Solar Water Heater Assembly/Manufacturing Plant
13	Solar Air Heater & Cooling System Assembly/Manufacturing Plant
14	Solar Powered Cold Storage
15	Small size biogas plants - 1.2, 1.6, 2.0, 2.4, 3.2 and 4.8 cubic meter gas production per day.
16	Medium size biogas plant varies between 6.0 to 25 cubic meter gas productions per day
17	Large size biogas plant is 26 cubic meter gas production per day to 200 cubic meter gas production per day and above.
18	Integrated Cow Rearing and Setting up of Bio-gas Plant
19	Wind Power Plant
20	Hydro Power Plant (Pico, Micro, Mini)
21	Installation of Energy Auditor Certified machineries including boiler
22	Auto Sensor Power Switch Assembly Plant
23	Energy Efficient Cook Stove Assembly Plant
24	Led Bulb/Tube Manufacturing/Assembly Plant
25	Energy Efficient Lime Kiln
26	Improved Rice Parboiling System
27	Pyrolysis Oil/Bio-crude Oil/Bio Fuel Manufacturing Plant
28	Biological ETP
29	Combination of Biological and Chemical ETP
30	Conversion of Chemical ETP into Combination of Biological and Chemical ETP
31	Central ETP
32	Waste Water Treatment Plant
33	Sewage Water Treatment Plant
34	Methane Recovery and Power Production from Municipal Waste Plant
35	Compost Production from Municipal Waste Plant
36	Hazardous Waste Management Unit/Plant
37	Medical Waste Management Unit/Plant
38	E-Waste Management Unit/Plant
39	Sludge Management Unit/Plant
40	PET Bottle Recycling Plant
41	Plastic Waste (PVC, PP, LDPE, HDPE, PS) Recycling Plant
42	Paper Recycling Plant
43	Recyclable Bag Manufacturing Plant
44	Recyclable Poly Propylene Thread and Bag Manufacturing Plant
45	Battery (Solar/Led Acid/Lithium Ion) Recycling Plant
46	Compressed Block-Brick
47	Foam Concrete Brick
48	Environment Friendly/Brick Kiln Efficiency Improvement Project (Tunnel Kiln and HHK)
49	Establishment of Certified Green Industry
50	Establishment of Certified Green Building
51	Establishment/Installation 'Green Featuring' in the Building/Industries
52	Safety and work environment of factory
53	Production of Vermicompost
54	Production of Palm oil
55	Production organic fertilizer from slurry

Source: SFD, BB.

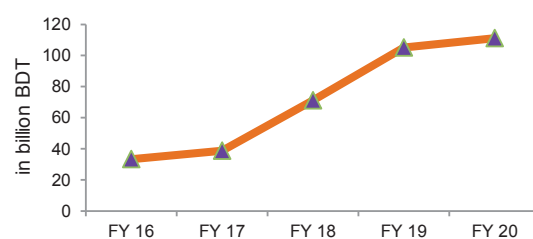
Green Transformation Fund (GTF)

6.13 The latest step of Bangladesh bank in fostering sustainable finance is to create Green Transformation Fund. In February 2016, BB has announced its intention to create a new longer term refinancing window of USD 200 million naming Green Transformation Fund (GTF). Though initially the fund was available only for export oriented textile, leather and jute sectors, it became available for all export oriented sectors in June, 2019 to ensure sustainable export growth of the country and for transforming to a greener economy. It is intended to facilitate access to financing in foreign exchange by all manufacturer- exporters in export oriented sectors to import capital machinery and accessories for implementing environment-friendly initiatives. The initiatives include Water use efficiency in wet processing, Water conservation and management, Waste management, Resource efficiency and recycling, Renewable energy and Energy efficiency, Heat and temperature management, Air ventilation and circulation efficiency and Work environment improvement initiatives (FE Circular No. 02/2016). In April, 2020 Euro 200.0 million along-with the existing USD 200.0 was introduced in GTF. The disbursement from GTF up to FY20 is USD 410.3 lac in 7 projects. Disbursements from the Euro part of GTF are expected very soon.

Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/Initiatives

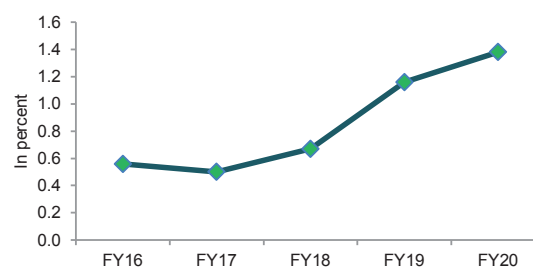
6.14 In September 2014, Bangladesh Bank introduced an “Islamic Refinance Fund” with the surplus liquidity of SLR of shariah based Islamic banks. To encourage the further involvement of the shariah based banks and

Chart 6.3 Trends in Total Green Finance



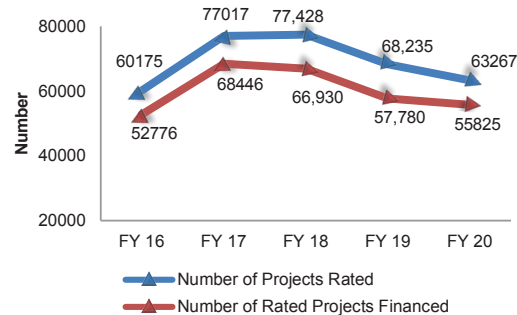
Source: SFD, BB.

Chart 6.4 Trends in Share of Green Finance in Total Funded Loan Disbursed



Source: SFD, BB.

Chart 6.5 Trends in ESRR by Banks and NBFIs



Source: SFD, BB.

NBFIs in green finance, Bangladesh Bank launched a refinance scheme for Islamic banks and FIs operated by “Islamic Refinance Fund”. Over time, considering the modification in the country’s economic structural conditions, advanced technology, gradually rising demand for the eco-friendly products/initiatives,

Bangladesh Bank has issued an integrated and comprehensive SFD “master circular” on April 05, 2018. According to this circular, the scheme has been renamed as “Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/Initiatives”. BB enhanced the product range under this scheme from 50 to 51 and segregated these products into 8 categories which include renewable energy, energy-efficient and energy-savings technology, alternative energy, waste management, recycling and recyclable product, environment friendly brick production, environment friendly installations and miscellaneous. The cumulative amount of refinance under the scheme up to June 2020 stood at BDT 489.62 million. Total disbursement under this scheme during FY20 was BDT 71.62 million.

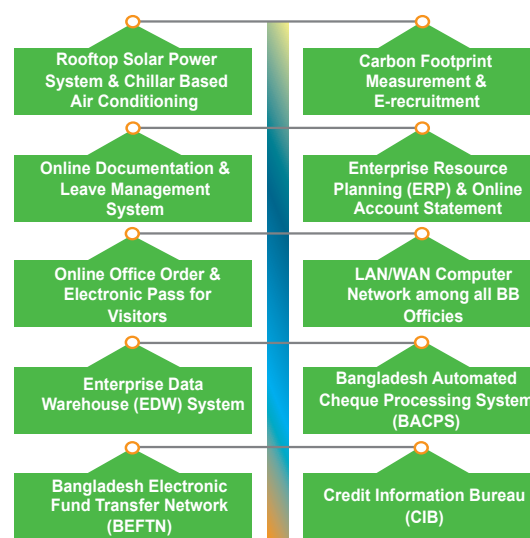
Corporate Social Responsibility

6.15 BB issued CSR policies and guidelines on June 2008 and December 2014 for mainstreaming CSR in banks and NBFIs in Bangladesh and for end use monitoring of CSR engagements of the financial sector. These policies and guidelines clearly state the requirement of administrative setup, budgetary allocation, expected range/coverage of CSR activities and end use monitoring process of CSR expenditures and activities. Besides that, on June, 2015 BB issued reporting format for monitoring CSR activities of banks and FIs.

CSR Activities of Banks and NBFIs

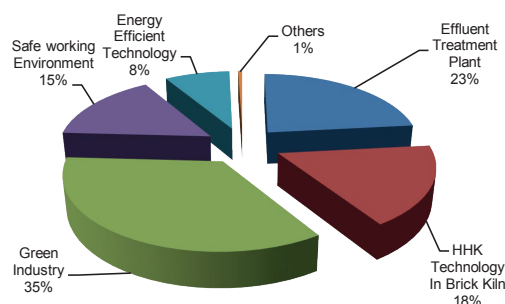
6.16 Total amount of CSR expenditure by banks and NBFIs in FY20 was BDT 9399.67 million while the amount was BDT 5203.47 million in FY19. The sector-wise CSR expenditure scenario of banks and FIs are

Chart 6.6 BB's In-house Green Practice



Source: SFD, BB.

Chart 6.7 Product-wise Refinance Disbursement in FY20



Source: SFD, BB.

Table 6.4 CSR Expenditure of Banks and NBFIs in FY20

Sectors	Banks		NBFIs	
	Amount	Sectoral Share (percent)	Amount	Sectoral Share (percent)
Education	1809.4	19.5	9.3	6.4
Health	1457.0	15.7	73.0	50.5
Humanitarian & disaster relief	2624.2	28.4	46.6	32.2
Environment	435.4	4.7	0.7	0.5
Cultural welfare	1042.2	11.3	3.3	2.3
Infrastructural development	66.0	0.7	1.9	1.3
Income generating activities	00.9	0.0	3.4	2.3
Others	1820.0	19.7	6.4	4.4
Total	9255.1	100.0	144.6	100.0

Source: SFD, BB.

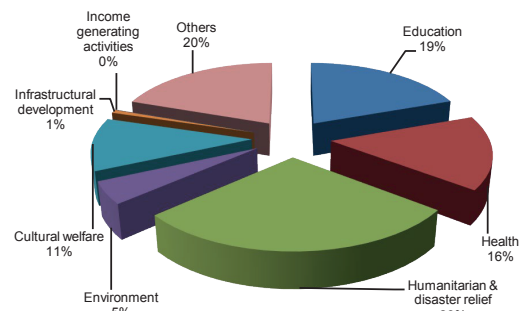
stated in Table 6.4. Bank's total CSR expenditure in FY20 is BDT 9255.1 million. Banks contributed 28.4, 19.7, 19.6 and 15.8 percent to humanitarian and disaster relief, others, education and health sectors respectively of the total CSR activities. Expenditure on cultural welfare and environment in underprivileged area are 11.3 and 4.7 percent respectively. Besides, only 0.7 percent of total CSR expenditure contributed to infrastructural development. Banks' CSR expenditure in income generating activities is insignificant during FY20. Share of expenditure in CSR programs of banks in FY20 are shown in Chart 6.8.

6.17 NBFIs reported direct CSR expenditure of BDT 144.57 million in FY20. NBFIs major shares of CSR expenditure contributed to health and humanitarian and disaster relief sectors 50.46 and 32.25 percent respectively. However, they spent 6.45, 4.42, 2.34, 2.28 and 1.33 percent in Education, Others, Income generating activities, Cultural welfare and Infrastructure development sectors respectively. Only 0.47 percent of total CSR expenditure contributed to Environment sector in FY20. Share of expenditure in CSR programs of NBFIs in FY20 are shown in Chart 6.9.

BB's Own CSR Activities

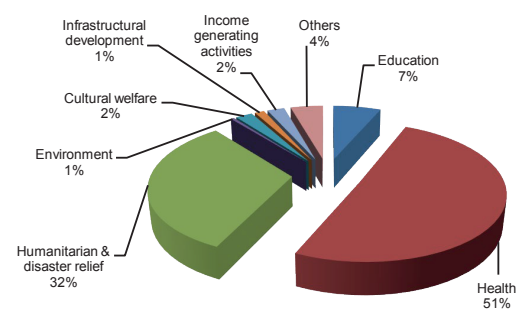
6.18 BB has established "Bangladesh Bank Disaster Management and Social Responsibility Fund" by transferring taka 50 million from its annual profit each year to conduct its own CSR activities in different areas such as education, health, environment, empowerment, human resources development, etc. with a view to developing the backward sectors of Bangladesh and ensuring its sustainable development. Later the fund was extended to BDT 100.0 million in

Chart 6.8 Share of Sector-wise CSR Expenditure of Banks in FY20



Source: SFD, BB.

Chart 6.9 Share of Sector wise CSR Expenditure of NBFIs in FY20



Source: SFD, BB.

Table 6.5 Sector-wise Expenditure of BB's CSR Fund in FY20

Sectors	Amount (In million BDT)	Sectoral Share (percent)
Education	18.02	36.41
Health	10.44	21.09
Research	8.37	16.90
Human Resources Development/ Capacity Building	0.90	1.82
Disaster Management	0.14	0.29
Infrastructure Development	11.06	22.35
Culture	0.18	0.36
Others	0.38	0.78
Total	49.49	100.00

Source: SFD, BB.

FY15. BB has sanctioned BDT 49.5 million in FY20 which was BDT 41.8 million (contribution from BB's profit and bank interest) in FY19 from the fund. The sector wise allocation of CSR expenditure in FY20 is shown in table 6.5.

Financial Inclusion Activities in Bangladesh

6.19 Financial inclusion has emerged as one of the most effective policies to achieve inclusive and sustainable economic development. In line with this policy objective, Bangladesh Bank (BB) has been engaged in the exploration of innovative initiatives to bring the financially excluded people under the umbrella of formal financial services. As part of these initiatives, BB has been promoting multi-faceted and affordable alternative delivery channels including the digital services to make formal financial services available at the doorsteps of the mass people.

6.20 As per the responsibilities conferred upon vide various statues, acts including the parent law 'The Bangladesh Bank Order, 1972', Bangladesh Bank has been committed to promote financial inclusion activities to facilitate the best use of economic resources. As a part of this mission, BB has taken different initiatives to improve the access to credit and other financial services especially for the unbanked and poor populace of the country who generally left out of the financial services.

6.21 Bangladesh Bank has committed for a greater financial inclusion of under-served productive sectors and brought new dimensions in financial markets for rapid poverty eradication, inclusive economic and social progress. In order to meet the commitments and targets within the stipulated time and to monitor the self-progress, BB has started outlying it's commitments to the nation through publishing 'Strategic Plan' since 2010. In the latest Strategic Plan for 2020-2024, Bangladesh Bank has set several action plans which have been coupled with the indicators for deepening financial inclusion in Bangladesh.

On implementation of those action plans, it is expected that financial services will be reached out to all including the underprivileged people, gender gap will be reduced, and finally the usage of financial services will be increased to the expected level.

6.22 In addition to the institutional goals, Bangladesh Bank has played an instrumental role in preparing the country's first financial inclusion strategy, the National Financial Inclusion Strategy (NFIS). The draft of NFIS has been finalized and awaited approval from the Cabinet. In the finalized draft, the commitment for financial inclusion of all citizens by 2024 has been reaffirmed.

Early Stages of Financial Inclusion in Bangladesh

6.23 The nationalization of the banks in 1972 facilitated in reaching out to more remote places and diversifying banking services for a greater population. Another important step was the establishment of Bangladesh Krishi Bank (a specialized bank for financing the agricultural sector) in 1973, which facilitated access to agricultural finance to a large portion of the rural population. Meanwhile, microfinance institutions also found their ground to grow their operation as aide delivery channel and operating microcredit at the rural level.

6.24 As the time evolved, in 1982, Bangladesh Bank started licensing of private commercial banks in Bangladesh that increased financial access points and thus helped more people to be on-boarded in the financial system. With the emergence of mobile and internet, Digital Financial Services (DFS) boosted the financial inclusion in Bangladesh further, especially in the last decade. Among

the available DFS, Mobile banking has gained much popularity and helped more unbanked people to use financial services.

6.25 In FY20, Bangladesh Bank with its various initiatives, remained focused on reaching out to more unbanked and underprivileged people, exploring new areas and ensuring quality and affordable financial services.

Financial Inclusion through Conventional Channels

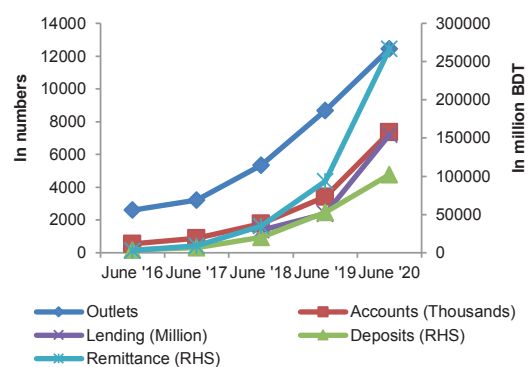
Expansion of Branch Network of the Banks

6.26 The conventional and comprehensive way of extending banking services to the areas where there is a need for those services as well as business prospect for the banks is the full-fledged branch banking. Earlier, banks were permitted to maintain a ratio of 4:1 for setting new branches in the urban and rural areas till 2011. With a view to reaching more rural areas with banking services, Bangladesh Bank issued a circular on bank-branch expansion in 2011 and re-fixed the rural urban branch ratio to 1:1. In FY20, a total of 192 new bank branches were opened. The number of bank branches as on 30 June 2020 stood at 10,588.

Sub-branches and Bank Booths

6.27 In 2012, Bangladesh Bank allowed banks to establish Small and Medium Enterprise (SME) branches, Agri-branches, collection booths and business development centers. These new channels are bringing more unbanked and underprivileged people under the formal banking network. Such branches are providing limited scale banking services and operating within a limited expenditure under the supervision of a nearby full-fledged branch of

Chart 6.10 Trends in Agent Banking Activities



Source: FID, BB.

the bank.

Financial Inclusion through Alternative Channels

Agent Banking

6.28 Bangladesh Bank allowed scheduled banks to extend banking services through agents in 2013. Agents of a bank can offer limited-scale banking and financial services under a valid agency agreement. Through this system banks can extend their services to the remote areas without setting up a branch or employing their own officials to the remote location. This new system is cost efficient for the banks as well as suitable for a local entrepreneur to act for a bank in their locality. As a result, Agent Banking is gaining much popularity in the remote areas.

6.29 Financial inclusion has gained a pace through Agent Banking in the rural areas creating endless possibilities for both banks and their customers. Agent banking is helping banks in mobilizing deposits, disbursing credit and most importantly distributing inbound foreign remittances. Even in the time of spreading COVID-19, when every other business and

banking activities saw a downturn, the Agent Banking has still made a significant progress.

6.30 As of June 2020, 28 banks have been licensed for Agent Banking and 23 of them are actively engaged. A total of 8,764 agents have been engaged with 12,449 outlets, which is 45.75 and 43.57 percent higher than the previous fiscal year respectively. Total number of accounts up to 30 June 2020 is 7,358,190 and total balance of these accounts is BDT 102.20 billion. The distribution of foreign remittance through agent banking in the FY20 was Tk. 173.02 billion which was 196.52 percent higher than BDT58.35 billion in FY19. Trends in agent banking activities are shown in chart 6.10.

Introduction of Automated Teller Machine (ATM)

6.31 Worldwide, ATMs are making significant contribution towards creating branchless banking. Considering the comfort and convenience of the customers, Bangladesh Bank encourages banks to introduce ATMs for their customers. This avenue allowed banks to provide allied services such as debit card, credit card, POS/online transactions, etc. The first ATM in Bangladesh was introduced in 1993. As on 30 June 2020, the number of ATMs in Bangladesh is 11,047.

Electronic Payment Services

6.32 The popularization of POS and e-Commerce services helped customers to make domestic and overseas payments with ease and convenience. Specially, with the evolvement of technology, these services helped to financially include the tech-savvy young generation. Bangladesh Bank also introduced Bangladesh Automated Cheque

Processing Systems (BACPS) in 2010, Bangladesh Electronic Funds Transfer Network (BEFTN) in 2011, National Payment Switch Bangladesh (NPSB) in 2012 and Real Time Gross Settlement System (RTGS) in 2015. These technical moves increased the speed of money and thus reduced time required for making interbank transactions significantly. As the usage of these services increases, the cost reduces and induces financial inclusion.

Mobile Financial Services

6.33 Bangladesh Bank has introduced Mobile Financial Services (MFS) in 2011. Initially MFS was used as a mode of payment instrument, but later MFS is being used as a medium of deposit mobilization also. MFS has experienced a rapid growth since the mobile phone network is omnipresent all over in Bangladesh. Bangladesh Bank has also introduced a tiered KYC and electronic documentation for opening an MFS account which further accelerated financial inclusion.

6.34 At the early stage, MFS transactions were limited to Cash-in/Cash-out (CICO), but now all mode of transactions including Person to Person (P2P), Person to Business (P2B), Business to Person (B2P), Person to Government (P2G) and Government to Person (G2P) are allowed and popularly used.

6.35 MFS has grown exponentially since the inception and the growth continued in FY20. In a recent move, in line with the Government's decision, Bangladesh Bank has instructed all MFS companies to open accounts of the garment workers, receivers of government subsidies, stipend, scholarship, etc. and allow them withdrawal of their hard-earned money with subsidized cash-out fee. The number of

registered and active MFS clients increased by 22.47 and 18.83 percent respectively during this fiscal year. The transaction number and volume were also increased by 28.35 and 41.38 percent respectively.

Licensing of PSPs and PSOs

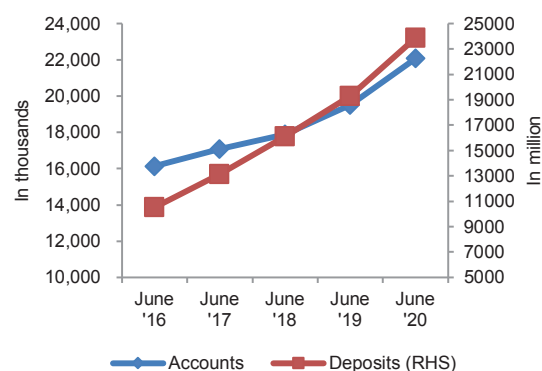
6.36 As a part of financial inclusion and deepening financial services, Bangladesh Bank has been providing licenses for Payment Services Providers (PSP) and Payment System Operators (PSO) under the "Bangladesh Payment and Settlement Systems Regulation-2014 (BPSSR-2014)". PSPs are facilitating payment(s) or payment processes directly to the customers and settling their transactions through a scheduled bank or financial institution, such as e-Wallet, Mobile Wallet, etc. PSOs are engaging as fintech companies who operate as settlement systems for payment activities between/among participants, such as payment gateway, payment aggregator, etc. As of June 2020, a total of 7 PSPs and PSOs are in operation and their activities are helping financial inclusion in Bangladesh.

Initiatives for Marginal and Specialised Segments

No-Frill Accounts

6.37 The focus of financial inclusion in Bangladesh rests mainly on low-income groups. Since the financial service is regarded as an important prerequisite for poverty alleviation and improving living standard, Bangladesh Bank issued a set of directives to the commercial and specialized banks to onboard the poor, marginalized and special segment of population to the formal banking system and to retain them in the system through opening a special type of bank accounts with zero or nominal charges and

Chart 6.11 Trends in No-frill Accounts



Source: FID, BB.

free of unnecessary fees or frills. Those accounts are commonly known as No-Frill Accounts (NFA). NFAs require simplified Know-Your-Customer requirement and documentation. Bangladesh Bank guided commercial banks for opening NFAs for farmers, recipients of the social security programs, freedom fighters, small life insurance policyholders, garment workers, cleaning workers of the city corporations, footwear and leather goods makers, small-scale factory workers, physically-challenged persons, street urchins, dwellers of the former enclaves, flood affected marginal people, small businessmen, etc. In addition, Banks were instructed to offer higher interest rate against the deposits of those accounts. NFAs have been playing a pivotal role in respect to financial inclusion over the years.

6.38 As of June 2020, a total number of 2,20,70,630 NFAs have been opened under the financial inclusion program. The number was 1,94,98,045 in June 2019 indicating an annual growth of 13.19 percent. The total amount of deposits in the NFAs reached BDT 23,867.4 million in June 2020 compared to BDT 19,301.9 million in June 2019 indicating 23.65 percent of annual growth during last year. Trends in NFAs are shown in chart 6.11.

School Banking

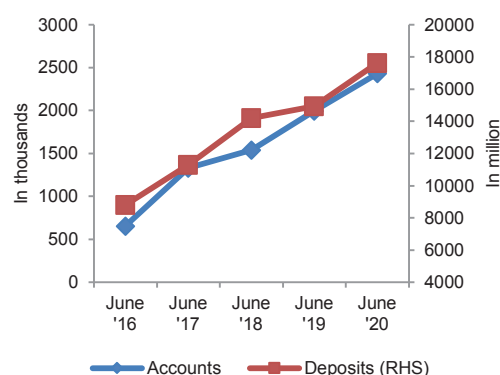
6.39 One of the most significant milestones in the financial inclusion initiatives of Bangladesh Bank is the introduction of School Banking. To develop savings habit at a very early age, the program introduces banking services and modern banking technology to students of age less than 18 years. Bangladesh Bank issued directives for the banks to introduce school banking in November 2010, later framed a comprehensive policy in October 2013. These policies have preceded the directive to convert school banking accounts to general savings accounts once the students reach the age of 18 years (subject to the consent of the account holder).

6.40 In light of these policies, banks can open student accounts with a minimum deposit of BDT 100 and no service charges. Moreover, these accounts offer attractive interest rates, debit card facility and school-centric financial education programs. 55 banks out of 60 banks operating in Bangladesh have so far offered school banking. Total number of students accounts under school banking initiatives has increased to 24,31,602 in June 2020 with a total deposit of BDT 17,628.2 million. The number of accounts and amount of deposit have increased by 4,35,572 (or 21.82 percent) and BDT 2684.2 million (or 17.96 percent) respectively in June 2020 from June 2019. Chart 6.12 shows the picture of school banking accounts in Bangladesh.

Banking for the Working Children

6.41 Bangladesh Bank has directed banks to provide financial services to street urchin and working children to secure their hard-earned money and help them to grow a saving attitude. Children who do not have parents can

Chart 6.12 Trends in School Banking Activities



Source: FID, BB.

open accounts in the banks with the help of the registered Non-Government Organizations (NGOs). The NGOs involved in this process are fully responsible for the account operation and for the welfare of the account holders. No fees are charged on these accounts.

6.42 Up to June 2020, 19 banks have opened 10,029 street urchin and working children accounts through the help of 23 NGOs. The total amount of deposits in these accounts is BDT 3.87million. The number of accounts for street urchin and working children has been increased by 4,882 in June 2020 compared to that of June 2019, indicating 94.85 percent increase over the last year.

Introduction of Refinance Packages

BDT 2.0 Billion Refinance Scheme for BDT 10 Account Holders

6.43 In 2014, a revolving refinance fund of BDT 2.0 billion has been created from Bangladesh Bank's own source to facilitate the rural economic activities by expanding the income-generating activities of the low-income marginal/small traders affected by natural

disasters as well as small/marginal farmers with accounts of BDT 10 to provide access to credit to the financial services-strapped people under institutional financial services. The scheme has been used to refinance loans provided by banks directly and also through Micro-Financial Institutions (MFI) linkage. Under this scheme, the banks under contract can lend up to BDT 50,000 to the accountholders of BDT 10 for one-year period without any collateral. In contrast to the disbursement of these loans, Bangladesh Bank provides refinance facility to banks at bank rate. The maximum interest rate of this loan is 9.5 percent, which is calculated in reducing balance method. Besides, banks also get a rebate incentive at a rate of 3.5 percent against successful reclaiming of disbursed loans under this fund.

Refinance Scheme of BDT 30.0 Billion for COVID-19 Affected Marginal People

6.44 In order to tackle the adverse impact of COVID-19 on marginal people, Bangladesh Bank announced a BDT 30.0 billion refinance scheme on 20 April 2020. The objective of the scheme is to provide the poor and marginal people with access to credit through Microfinance Institutions (MFI). The maximum limit for the loan is BDT 75,000 for individual and BDT 3,00,000 for a group of people. In case of a small enterprise, the maximum limit of loan is BDT 10,00,000 and a group of small enterprise are eligible to get maximum BDT 30,00,000. All credits under this scheme are to be given only to the members of MFIs for the period of one year for an individual and maximum 02 years for micro-enterprises. 42 scheduled banks have already agreed upon a contract with Bangladesh Bank to disburse the fund under the scheme to the MFIs who are given eligibility

certificate by Microcredit Regulatory Authority (MRA). Banks will be charged only 1.0 percent per annum by Bangladesh Bank and they will lend to MFIs at 3.5 percent per annum. The end-users who are affected by the COVID-19, are eligible to get the fund at maximum rate of 9.0 percent per annum. It is mentionable that remittance-providing workers who are returning from abroad due to COVID-19 situation, are also eligible to get credits under the scheme. Thus, this refinance scheme opened a great scope for the marginal people to carry on their livelihoods amidst the corona crisis.

Financial Literacy and Consumer Empowerment

6.45 Financial literacy of the citizen is a prerequisite to make a sustainable financial inclusion. With a view to making financial inclusion initiatives more successful, Bangladesh Bank has taken numerous initiatives. An interactive web portal for financial literacy has been hosted on the official website of BB. The portal contains basic financial literacy documents, cartoons, story books, games, audio-visuals, calculator, etc. on different financial issues and financial services. Several television commercials, radio broadcasting commercials, advertisements in the newspaper, flyers, pamphlets, leaflets, video documentary have been made and released for building public awareness on financial literacy.

6.46 Bangladesh Bank has identified 'Strengthen financial education & financial literacy initiatives' as an important core objective in the Strategic Plan for 2020-2024. With a view to increase public awareness, formulate financial literacy and financial education policy, Bangladesh

Bank has designed a special programme named 'School Banking Conference' in 2014. School Banking Conferences are arranged at the district-level of Bangladesh. Students from different educational institutions, parents, teachers, government officials, journalists of that locality participate, learn and share financial knowledge through various activities. Considering financial literacy as a foundational learning for the future citizen, Bangladesh Bank has been working to include a special chapter on financial literacy in the national curriculum for the secondary level education.

6.47 In addition to the above-mentioned programs and initiatives, Bangladesh Bank arranges different financial awareness campaign such as open credit disbursement program, awareness raising campaign under different schemes and projects, special fairs such as Banking Fair, SME Fair, Women Entrepreneur Fair, etc.

International Collaboration and Knowledge Sharing

6.48 Bangladesh Bank has built partnership with some international strategic alliances and become member of international organizations to boost financial inclusion, financial deepening and also to ensure an enabling and inclusive financial environment in Bangladesh.

6.49 Governor of Bangladesh Bank was the Chair of the Board of Directors of Alliance for Financial Inclusion (AFI) till September 2019. AFI (<https://www.afi-global.org>) is a global knowledge exchange platform of 99 regulators from 88 countries for financial inclusion.

6.50 The Maya Declaration, a member institution's self-commitment regarding financial inclusion has been introduced by AFI

in September 2011 at the AFI Global Policy Forum in Riveria Maya, Mexico. Bangladesh Bank signed the Maya Declaration and made 46 commitments of which 37 commitments have successfully been achieved till June 2020.

6.51 Bangladesh Bank has also been made Vice-chair of the Financial Inclusion Working Group of the Organization of Islamic Cooperation (OIC). This working group of the central banks of the Islamic countries is working for the promotion of financial inclusion as well as for improving access to finance, financial education and consumer protection.

6.52 It is well-mentionable that due to significant progress in financial inclusion, Bangladesh Bank has been awarded with the AFI Policy Award in 2014, The Child and Youth Finance International (CYFI)'s Global Inclusion Award for 2016 and 2017, AFI Gender Inclusive Ambassador award in 2018.

Other Financial Inclusion Initiatives

Introduction of e-KYC and Simplified Account Opening Form

6.53 Bangladesh Bank is committed to ensure affordable and faster financial services for the citizen to promote financial inclusion and to achieve several national objectives including sustainable development goals (SDGs). As the modern financial ecosystem require customer identification and due diligence with minimum possible time, Bangladesh Bank took initiative to introduce electronic know-your-customer (e-KYC) in 2016. Since the digitalization enable easy access of customer, even from the remote location, into the financial services, this may pose some underlying risks. Furthermore, the verification of identity is an integral part

to complete the Know Your Customer (KYC) processes necessary for compliance with Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) regulation.

6.54 The inability of financial institutions to properly verify prospective clients will lead to financial exclusion. Considering the pros and cons and a trustworthy identification mechanism through e-KYC, Bangladesh Bank issued a guideline in January 2020. Banks are instructed to implement e-KYC by December 2020.

6.55 In order to promote financial inclusion, Bangladesh Bank reviewed the account opening form used by the Banks and introduced a simplified form in February 2020. The simplified form is designed to offload the burden of the marginalized clients from submission of many documents based on their risk exposure. Bangladesh Bank also asked all banks introduce simplified forms by 30 June 2020 replacing the existing and long account opening forms burdened with information.

6.56 The account opening forms were updated to make account opening more customer-friendly in accordance with the evolvement of information technology, improvement of financial infrastructure and to facilitate faster information flow with the assistance of technology. Apart from the requirements of the simplified forms, the banks have been allowed to seek additional information from customers if they deem it necessary.

Deepening of Access to Finance through Agricultural Credit Programme

6.57 Bangladesh Bank has been pursuing annual agricultural credit policy to increase financial inclusion and access to finance in the

rural areas. The policy also aims at reaching every corner to rejuvenate rural economy each year. In addition to financial inclusion, agricultural credit policy helps employment generation, increases agricultural production and ensures food safety for the country.

6.58 Short-term agricultural credits are generally disbursed to the farmers for the production of crops and those are repayable within a calendar year. So, agricultural credit supply needs to be continued through policy initiatives to retain them in the financial systems. In FY20, a total of BDT 227.5¹ billion has been disbursed to 3.1 million borrowers of which 1.5 million were women.

Narrowing the Gender Gap

6.59 As per the Global Findex, 2017 published by the World Bank, the prevailing gender gap in accessing financial services in Bangladesh is 29 percent. In order to reduce the gap and to increase the pie for the female counterpart, Bangladesh Bank has taken different initiatives which help increasing financing inclusion through widen the access to finance. Banks are instructed to extend fresh credit facilities in favor of at least 3 Women Entrepreneurs per branch annually. Furthermore, to encourage the women's participation in getting credit, banks are instructed to setup a dedicated desk in each branch and to form a Women Entrepreneur Development Unit at their head office to help and monitor the women entrepreneurship and allied activities. The policy measures taken by Bangladesh Bank already impacted positively on the share of women in financial services.

¹ Agricultural & Rural Credit Policy and Programme for the FY21.

Enhancing Eligible Collateral Base for Greater Access to Finance

6.60 Sufficient collateral is one of the important prerequisites to avail loan from any bank or financial institution in Bangladesh. Among the collaterals, immovable fixed assets are most widely acceptable. Hence, financing to escalate the cottage, micro, small and medium enterprise (CMSME) industry hinders due to lack of adequate immovable collateral. Movable assets can be considered as alternative source of collateral for the CMSME loans. A project named 'Secured lending and movable collateral reform in Bangladesh' has been undertaken jointly by Bangladesh Bank, Ministry of Finance and International Finance Corporation (IFC) of World Bank Group. The objective of this project is to generate the acceptability of transferable or movable assets through reformation of eligible collateral. Consequently, widen the periphery of eligible assets considered as collateral and to ease financing intricacy for the CMSME entrepreneurs.

Regulatory Changes in Financial Inclusion in FY20

Issuance of e-KYC Guidelines

6.61 Bangladesh Financial Intelligence Unit issued the e-KYC guidelines for the financial institutions including banks, non-bank financial institutions, insurance companies, capital market intermediaries, MFS, DFS and the other companies licensed by the Bangladesh Bank. Every financial institution is expected to implement this Guideline by December 2020. This e-KYC guideline contains a set of instructions for the financial institutions to enable them to conduct customer due diligence in a digital means based on the national ID

(NID) card and the bio-metrics data stored against each NID card. The key objective of promoting e-KYC is to enable quick onboarding of customer by verifying customer identity through digital means which can leverage saving of time and provide ease both for the client and service providers.

Regulatory Responses due to COVID-19

6.62 Bangladesh Bank has taken several steps in Covid-19 pandemic situation, including the following:

- Uninterrupted digital financial services in different sectors by enhancing transaction limit and waivers of fees;
- Disbursement of Salary, Wages and Government Social Safety Net benefit through the workers'/customers bank account or mobile wallets;
- Disbursement of Government allowance of distressed population affected by providing cash assistance to 5 million poor families who have lost their profession during the corona virus pandemic through Mobile Financial Services (MFS) and BDT10 account;
- Formed a Revolving Refinance Scheme with an initial fund of BDT30 billion for providing credit facilities to ensure inclusive growth;
- Developed financial assistance package of BDT 200 billion for capital loan/ investment facility for Cottage, Micro, Small and Medium Enterprises (CMSME) and BDT 100 billion Refinance Scheme for CMSME sector to provide working capital facility.