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What's next for Bangladesh's fintech innovation?

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Insights

- Bangladesh is a pioneer in digital finance (DFS) innovations, and the Bangladesh government has played a critical role through supportive policy and regulatory approaches.
- The Covid-19 crisis reveals the limitations of localized digital ecosystems in an interconnected global economy; new policy measures are required to buffer its impacts on local FinTech and position the local DFS ecosystem for long term success.
- Key policy initiatives may include enhancing digital payments capacity through a market/acceptance development fund, offering specialized incentives to support MSMEs and last-mile distribution networks, while solving gender disparities in Bangladesh's digital payments access and usage.

Introduction

Over the past 15 years, Bangladesh's financial sector has transformed rapidly. Bangladesh's policy and regulatory approach has struck a balance between openness to innovation and risk management. As a result, homegrown Bangladeshi companies have built a vibrant digital payments ecosystem. Using a similar approach, policymakers in Dhaka now have an opportunity to build upon this progress and connect local merchants and consumers with global markets. In making this transition from local to global connectivity, Bangladesh can become a model for other developing countries with large underbanked populations.

Since 2009, the Bangladeshi government has committed to using technology to reduce poverty through its Digital Bangladesh—Vision 2021 plan, as part of its National ICT Policy and ICT Act of 2009 (Access to Information Program [a2i], Prime Minister's Office, 2011), launching Bangladesh's digital catalysis, including supporting the emergence of two homegrown, globally recognized mobile payments companies—Nagad and bKash—that are helping Bangladesh weather the pandemic. The government of Bangladesh also continues to emphasize innovative use of technology in its seventh Five Year Plan (2016-2020), which aims to expand "access to financial services to the underserved, including micro and household enterprises now operating in the informal market[,] and deepen the financial markets [by] introducing relevant products" (Alliance for Financial Inclusion, 2018).

However, the COVID-19 crisis has revealed the limitations of localized digital ecosystems in an interconnected global economy. Lockdown measures and the limits on economic activity of the past year, coupled with increased pressure on government services, have strained government budgets. The external environment is marked by uncertainty, and signs of global economic recovery are tempered by a lack of predictability about the pandemic's trajectory. These are situations in which governments may sometimes be inclined to adopt restrictive trade measures that would severely limit the dynamic potential of Bangladesh's startup promise.

In this paper, we recommend some measures Bangladesh can take to sustain its fintech startup growth, including maintaining an open and enabling trade policy; building an innovative, technology-first approach to public-private partnerships; and increasing digital payments capacity through a market development fund, the latter customized to support micro, small, and medium enterprises (MSMEs) and last-mile distribution networks while helping address the continuing gender disparities in digital payments.

Economic growth and supportive policymaking helped Bangladesh become a digital pioneer

Bangladesh's government has worked with the private sector to create a supportive policy environment for digital innovation and foster the development of new technologies across industries, including value-added sectors such as pharmaceuticals and software. These industries have bolstered the country's economic offering and are helping it weather the current crisis. One transformative element is enhanced government incentives for startups, such as a dedicated government seed fund through StartUp Bangladesh. Another is the government's commitment to upgrading the country's digital infrastructure. The government itself is shifting to providing services digitally. Users of government services can already avoid waiting in line by accessing many of these services from their home via apps.

Bangladesh's innovation success story began with its export-oriented growth model, which has contributed to GDP increases of nearly 7 percent per year for the past decade. Another contributing factor is Bangladesh's adaptability. Nowhere has this been more evident than in the ready-made garment industry, which responded to workplace fires and other industrial accidents in the early 2010s by implementing stringent worker safety, value chain responsibility, and transparency measures, all of which helped significantly modernize the sector (Berg et al., 2021).

The country's commitment to modernization and its spirit of resilience arose again during the COVID-19 pandemic. Beximco, for instance, one of Bangladesh's largest textile and apparel companies, quickly pivoted from manufacturing fashion clothing to making medical gowns and personal protective equipment according to US Federal Emergency Management Agency (FEMA) standards. The company's leaders expect that the sales from these exports will match those of all other textiles combined (Alam, 2020; Anas, 2020).

For reasons such as these, and even with the immense challenges created by the pandemic, Bangladesh is still expected to have grown by 5 percent in 2020, indicating a fairly resilient economic recovery (IMF, 2021).

The structural transformation of Bangladesh's economy over the years has had important development results. Poverty (as defined by the international poverty line of US$1.90 a day) has declined from encompassing 34 percent of the population in 2000 to encompassing 14 percent in 2016 (the latest year that these data are available from the World Bank). Bangladesh now ranks higher on the World Bank's Human Capital Index than the South Asian average. It has made significant progress in maternal health and education for girls. The United Nations expects Bangladesh to graduate from Least Developed Countries (LDCs) status by 2024 (IISD, 2018).

How supportive government policies helped Bangladesh's digital payments landscape grow

Currently, there are approximately 175 million mobile subscribers, with 107 million mobile internet users having more than 96 million registered MFS wallets throughout Bangladesh (Bangladesh Bank, 2021). BKash is the world's second-largest mobile financial services provider, according to the International Finance Corporation (IFC), and has been facilitating domestic payments in Bangladesh since 2011. Five years after it launched, bKash announced a partnership with Western Union that allowed its customers to accept international remittances in their bKash accounts—a big step, given that Bangladesh is the world's eighth-largest receiver of international remittances. During the pandemic, bKash also rolled out a new facility that allows people to transfer funds to non-bKash account holders and users, in a move that may cut reliance on cash and increase the mobile financial services' (MFS) accessibility (bKash, 2021).

The service is part of a host of measures taken by the non-bank financial institution to support customers amid the ongoing coronavirus pandemic. During this ongoing pandemic, bKash has added around 0.4 million new customers, bringing its total reported registered user base more than 44.3 million, an expansive distribution network of 220,000 agents across the country, and investments from global venture capital and philanthropic funds such as the Bill and Melinda Gates Foundation of the United States and the World Bank's private-sector arm IFC (Pazarbasioglu et al., 2020; IFC, 2017).

Now, bKash faces competition from another local player: Nagad. This startup, which is the mobile financial services arm of the Bangladesh Post Office (under the Ministry of Post and Telecommunication) and a local FinTech, uses an innovative electronic know-your-customer (e-KYC) process and offers cashless payment options to people for COVID-19 tests. Bangladeshi startups have also taken off in sectors such as health tech and e-commerce logistics.

The Bangladeshi government has played a supportive policy role in scaling these digital innovations. In 2011, Bangladesh Bank issued guidelines on mobile financial services that provided the certainty and clarity needed for this industry to take off. Although Bangladesh Bank was not comfortable allowing mobile network operators (MNOs) to launch their own services, the regulators allowed banks to establish subsidiaries offering mobile banking services. MNOs, which were then barred from providing mobile banking services themselves, were encouraged by the central bank and telecommunications regulator to provide mobile banking providers with access to their communications networks. BKash is part of the BRAC group, a nongovernmental organization that provides social services and includes BRAC Bank, a commercial bank (it owns 51 percent of bKash).

As per revised Regulatory Guidelines for Mobile Financial Services (MFS) in Bangladesh (Bangladesh Bank, 2018), Mobile Network Operators (MNOs) are allowed as equity holders subject to conditions. A new player, Trust Axiata Pay (TAP), a venture of Trust Bank and Malaysian telecommunications conglomerate Axiata Group launched its MFS service in December 2020 with a brand name TAP (Trust Axiata Pay) where Trust Bank holds 51 per cent stake in TAP and Axiata the remaining 49 per cent. (Dhaka Tribune, 2020).

In 2020, Bangladesh Bank applied e-KYC guidelines to the country's financial institutions that clarified the requirements for responsible e-KYC innovations. These help bank and nonbank financial institutions conduct digital customer due diligence, including permitting paperless customer onboarding, accelerating procedures for identifying and verifying customer identity, allowing KYC profiles to be kept in a digital form, and assessing customer risk grades digitally. They allow biometric data to be stored against each National Identity Card. The guidelines save time and effort for both the clients and service providers and were key to enabling Nagad to deploy a pioneering e-KYC innovation in Bangladesh, helping it become one of the fastest-growing mobile financial services in the world.

Nagad's e-KYC method is now used by most of Bangladesh's banks to open accounts, a task that previously required filling out a form several pages long and that took about a week. As most Bangladeshi users do not have a smartphone and thus cannot easily access e-KYC smartphone apps, Nagad has partnered with mobile phone carriers to build the same functionality into more affordable, basic feature phones so that a basic phone user can use the same e-KYC facilities to open an account. Now any Bangladeshi with a mobile phone can open a Nagad account and set up a digital KYC account in just seconds.

Along with bKash and Nagad, other successful Bangladeshi startups—such as ShopUp, Sheba, Pathao, Chaldal and Shohoz—have been making large, positive impacts in the areas of MSME digitization, women's empowerment, and digital enablement.

As outlined in the recommendations below, there are still areas in which Bangladesh could benefit from further policy improvements to drive digital transformation growth in the years ahead. One of the key areas is encouraging electronic payments acceptance (EPA). Updated, more favorable guidelines are needed to allow for more cutting-edge, lower-cost payments acceptance technology. This could increase usage of contactless options (such as tap-to-phone and mobile point-of-sale [mPOS]), which would reflect the latest acceptance innovations in the market and also continue building on the government's supportive role in accelerating EPA, such as through Bangladesh Bank's January 2021 guidelines (Bangladesh Bank, 2021) on Bangla QR code–based payments (Financial Express, 2021).

Startup support is helping to upskill Bangladesh

Today, Bangladesh is home to many innovative companies that are working to address key economic and social development challenges—in payments as well as other sectors. According to a recent study, more than 1,000 early-stage startups based in the country have received more than US$200 million in international venture capital (LightCastle Partners, 2020). Sustaining a robust tech startup culture is good not only for growth, but also for employment and upskilling: Startups provide employment to an estimated 1.5 million people in the country. Many of these jobs require relatively sophisticated ICT skills that can be transferred to other jobs. Developing a skilled and flexible workforce is important for attracting foreign direct investment as well as for continual development of the digital sector.

Increased internet access in urban areas has made Bangladesh the second-largest supplier of online labor, according to Oxford Internet Institute polls (2019), with about 500,000 freelancers taking advantage of this infrastructure (Zaman, 2019). And the government has pledged to make a 5G mobile network widely available by 2023. In addition, the government has made a commitment to upgrading human capital, for example, making information and communications training compulsory in secondary school. And lastly, the government has established StartUp Bangladesh, an innovative program run by the ICT Ministry that offers various opportunities—such as a dedicated government seed fund, facilitated licensing and registration processes, and mentoring support—to Bangladeshi entrepreneurs.

Startups' access to global networks, digital marketplaces, and other global infrastructure could further help with upskilling. Visa, for example, offers a platform of APIs (application programming interfaces) to nascent fintechs (Visa Developer Center), allowing them to test and improve their business model viability and effectiveness, and enhancing their ability to both scale and innovate. Through this platform, a Bangladeshi fintech could benefit from access to global infrastructure, resources, mentorship, and capital that increases its likelihood to achieve success from innovative services such as digital wallets, digital banking, disbursements, alternative lending, or vendor payments. Young Bangladeshi firms could also take advantage of the global platform's partner networks, such as their issuing banks, that they may need to bring their solutions to market and achieve desired scale.

Fintech startups are moving the needle on financial inclusion, but more needs to be done

Bangladesh's fintechs are helping to boost financial inclusion. Bangladeshis nearly doubled the number of transactions they made using mobile devices between 2016 and 2019, from US$27 billion to more than US$51 billion (Economist, 2020). Government efforts to expand the number of agents in rural and remote areas and the services these agents have offered, starting in 2015, have helped bring previously excluded people into the financial system. The increased availability of mobile financial services has played an important role. As illustrated in the figure below, the number of Bangladeshis with an account, either one they obtained through a financial institution or a mobile money account, has risen from 31 percent of Bangladesh's 160 million people in 2014 to 50 percent in 2017, the latest year for which the World Bank's Global Findex data are available. And while financial institution accounts have seen an increase, the number of mobile money accounts has multiplied from 3 percent to 57 percent for the overall population based on Bangladesh Bank's published MFS registered client data (Bangladesh Bank, 2021). There is, however, still a significant gender imbalance: Men's access to financial services has grown significantly more than women's (World Bank Global Findex Database 2017 and Bangladesh Bank Mobile Financial Services (MFS) comparative summary statement of March, 2021 and April, 2021). According to a study conducted by the UNCDF, only 11% of women are registered mobile financial services users (UNCDF 2019).

Although this gender imbalance is a major issue that the government still needs to address, in general, greater access to digital financial accounts benefits more individuals and their families. As more people are able to pay and be paid, they can also save money more easily and securely. This shift benefits countries as well as individuals. Digital payments can reduce the size of the informal economy, helping develop the private sector and increasing revenue for the government. A 2018 study by Kearney showed that increasing the use of digital payments could add more than US$1.5 trillion in GDP to the world's economy by 2021 (Schneider, 2018).

Account ownership, financial institution or mobile-money related service provider, Bangladesh
(percentage of population, age 15+)

	2014			2017		
	Overall	**Male**	**Female**	**Overall**	**Male**	**Female**
Account	31	35	26	50	65	36
Financial institution account	29	33	25	41	50	32
Mobile money account	3	3	2	21	32	10

Source: The World Bank Global Findex Database

How has the pandemic affected digital innovation in Bangladesh?

Although the COVID-19 pandemic has created some new opportunities for several Bangladeshi startups, it has caused serious challenges for most. Bangladesh has been hard-hit in terms of infections and deaths. And although the full economic impact remains unknown, it's indisputable that the effects of the pandemic could erase some of the gains the country has made in combating poverty and mitigating inequality. But there are key steps Bangladesh can take to preserve its important growth gains and continue advancing its digital innovation strategy.

Like other businesses around the world, most startups in Bangladesh have faced declining revenues, and slowed or halted their operations, risking the loss of employment of millions of people. In fact, the country's startups have seen at least a 50 percent drop in revenue generation. Nearly a quarter have been forced to cease operations. And about 60 percent report having a runway—that is, the time a business has to remain solvent without requiring additional funds—of less than three months (LightCastle Partners, 2020).

On the positive side, a few innovative fintech startups have not only survived, but thrived. Why? These companies have pivoted and reimagined their offerings, adopting new business models in line with evolving customer needs and market conditions. And as the pandemic accelerated the adoption of digital financial services and digital logistics, some entrepreneurs in these areas actually saw steep growth.

Notably, this has been the case in the area of remittances, a sector of significant importance to the economy. Despite a 1.6 percent global decline in remittance flows in 2020 from 2019, Bangladesh observed a brisk growth in inward remittance flows of 18.4 percent, significantly higher than the South Asian average of 5.2 percent (World Bank, 2021; Ratha et al., 2020), which is likely the result of a number of factors. One is the prevalence of digitized remittance mechanisms. A recent Visa Economic Empowerment Institute study (Harper et al., 2021) points to the benefits of digital remittances, including greatly reduced costs, compared with non-digitized means of payment. Another factor is government assistance policies, most notably the government's recent implementation of a 2 percent remittance incentive scheme (Bangladesh Bank, 2020). For every legal remittance sent by a Bangladeshi national to an account in Bangladesh, up to a limit of BDT 150,000 (US$1,770), the government will add 2 percent of the transaction.

Private-sector innovations, particularly from fintech startups, have supplemented government policies in helping pave the way for a smoother recovery. One example is HomePay, which enables payments to be sent from abroad to any bank account or mobile wallet in Bangladesh through one API, electronically verifying each remittance sender and recipient with an official Bangladesh government database (HomePay, 2021). The result is easier access to millions of bank accounts and mobile wallets in Bangladesh for send-side remittance companies, and cross-border transactions that are verified with official government systems.

Another innovation is bKash's introduction of the country's first blockchain-based, cross-border remittance solution to improve flows between Malaysia and Bangladesh, which debuted in September 2020. The use of the blockchain technology can help to further reduce the cost of remittances and transfer times and improve safety and security (SCB, bKash, and Valyou, 2020).

The government has also tried to counteract some of the pandemic's impact on small businesses. Recent measures include emergency cash aid disbursements to low-income households directly through mobile financial services accounts ("PM to Launch Disbursement," 2020). The government, as part of its multibillion-dollar COVID stimulus packages, is offering liquidity support to MSMEs. Through this program, MSMEs can access loans at a 4 percent interest rate instead of the normal 9 percent. Although such measures seem promising, most MSMEs may not be eligible, as they are outside the formal registration system and are difficult to identify, making it hard for them to qualify for the loans. An immediate solution may be to develop a more comprehensive database of MSMEs aimed at helping them access support and encouraging a more open, competitive system where additional providers could participate in the process (Hossain, Business Standard 2020).

It is too early to know whether these measures will have a lasting, positive effect on fintech. But the government and the private sector do have some real opportunities right now to continue encouraging more growth in this dynamic and promising area.

How Bangladesh can keep its momentum going in fintech innovation

As discussed above, the COVID-19 pandemic has presented many challenges, particularly for small startups, and those challenges are likely to persist for some time. But the current business landscape also presents tremendous opportunities.

In a recent regional update, the World Bank warns about the effects of the COVID-19 economic crisis on South Asia. Its recommendations to Bangladesh include continuing to safeguard its fiscal and debt positions, building financial sector health, protecting the low-income and vulnerable, and creating an environment conducive to private-sector development and job creation. Bangladesh's digital innovation economy is well positioned to help. But how can Bangladesh safeguard its digital innovation gains while also positioning itself for a more inclusive and resilient recovery? Here are three policy recommendations:

1. Maintain an open and enabling trade policy. Companies like bKash and other successful startups depend on reliable and secure cross-border data flows. This is true not only for payments companies but for others as well; the telehealth sector, for example, whose importance grew during the pandemic, features several prominent Bangladeshi startups. And, of course, modern manufacturing relies heavily on the reliable flow of data. This is especially important in the ready-made garment industry, where speed and agility are key.

Recently, there has been an uptick in the number of countries adopting restrictive policies (Evenett and Fritz, 2021), including restrictions on data flows. Governments often apply such measures in an effort to protect domestic firms and consumers. But the policies frequently have the opposite effect. Indeed, such measures pose a significant and growing threat to the connectivity, innovation, and growth that the digital economy delivers.

The costs to society include reduced connections of the type necessary to sustain robust global value chains as well as weakened fraud protection and cybersecurity defense—all of which are especially important in supporting Bangladesh's evolving payments ecosystem as well as other sectors (e.g., telemedicine). The costs also include productivity losses. The World Bank's 2020 World Development Report found that "restrictions on data flows have large negative consequences on the productivity of local companies using digital technologies… Countries would gain on average about 4.5 percent in productivity if they removed their restrictive data policies, whereas the benefits of reducing data restrictions on trade in services would on average be about 5 percent." This type of productivity loss is something no country can afford—let alone a country where digital innovation is a driver of growth and prosperity.

Instead, we recommend maintaining open trade policies and working closely with the private sector to fully comprehend the impact of international policies.

2. Build an innovative, technology-first approach to public-private partnerships. The startup ecosystem's success thus far in Bangladesh has already evolved in large part because of public-private partnerships. This kind of collaboration will be even more essential in navigating the country's post-pandemic recovery and in setting the stage for future fintech innovation. Government policies that respond to societal needs and ensure that private firms will be able to innovate bring about growth. We call on Bangladesh to quickly set out a structure to make use of the private sector most efficiently in identifying and tackling those needs. This is a three-pronged approach:

- Piloting using a regulatory sandbox. Regulatory sandboxes, which provide space for regulatory flexibility, are an innovative way for public-private partnerships to advance technology. Change is inevitable—during and after a crisis. As most of the world is still managing the impacts of a global pandemic, fintech startups in Bangladesh have an opportunity to adjust to a new environment. A regulatory sandbox could complement the work done in the regulatory innovation office for fintechs that was recently introduced by Bangladesh Bank's payment systems department to help the central bank better understand what gaps exist in the regulatory knowledge and to increase the capabilities of the market actors that are driving innovation. Sandboxes can help reduce operating expenses for startups while encouraging them to continue innovating under appropriate safeguards and with the close oversight of regulatory authorities. A sandbox would offer a safe haven in which fintechs could test new products and services, including cutting-edge solutions to key pandemic challenges. A regulatory sandbox can also encourage more early-stage local fintech companies to engage with policymakers and other important stakeholders (FCA and City Corporation, 2020), which provides these startups with greater access to knowledge and ideas. In addition, more countries have been evaluating "regional" regulatory sandboxes (Pacific Regional Regulatory Sandbox Guidelines, 2020) to allow deeper collaboration with the regulatory authorities of neighboring jurisdictions, with the objective of attracting a larger sample of innovative fintech companies that can help improve the well-being of their populations. This could be an initiative the government of Bangladesh might consider exploring with neighboring countries, such as Bhutan, Sri Lanka, Nepal, and India.

- Partnering to advance fintech. The government's economic stimulus program and related support policies are meant to build resilience, particularly helping with the short- and medium-term recovery efforts of local fintech startups; however, many fintechs will remain in a fragile position for some time.

  In these challenging times, many Bangladeshi startups have indicated (LightCastle Partners, 2020 and MSC study on Impact of COVID 19 on FinTechs) they would like greater access to capital to survive. If they could expand their runways through greater access to international capital, as well as to mentorship, remote assistance and end to end digitization, it would help them improve their business model for long-term success and sustainability. Other countries around the world have addressed this problem by setting up a multi-stakeholder global advisory task force mechanism to more efficiently transfer knowledge, and to help small businesses accelerate their digital transformation. For Bangladesh, too, connecting global experiences with local priorities would likely be an efficient and effective way to help startups achieve their long-term objectives faster.

  We recommend that Bangladesh assemble a global fintech advisory task force with dedicated fund to support its digital transformation. A dedicated task force—made up of knowledgeable experts from the private sector, development finance institutions such as the World Bank and Asian Development Bank, and government representatives (e.g. a2i), along with other partners—could build connections, increase knowledge sharing, and help Bangladesh develop appropriate policy measures to continue cultivating and scaling its local fintech innovations. For example, global companies such as Visa headquartered outside the country's borders can offer both financial and non-financial support, such as business model advice, building on their own experiences, resources, and capabilities. We also recommend that the task force focus, at least in part, on scaling up the participation of women in this industry. Closing the gender gap can have multiplier effects on society.

- **Planning policy discussions together with fintechs.** The government should ensure that a diverse and representative set of vested stakeholders, including young startup fintech firms and international players, are included in policy discussions that affect their potential growth and in which they can offer unique perspective. For example, Bangladesh may risk losing out on the full benefits of its recent interoperability regulations (Bangladesh Bank PSD Circular No. 07) if early-stage fintech startups are not included as part of the structured collaboration process. Interoperability and access to best international practices are essential for domestic fintechs to develop the innovative ideas and solutions that will continue to help address Bangladesh's financial inclusion challenges.

  We recommend an inclusive consultative process as Bangladesh develops further interoperability within banks and mobile financial service providers. The recent Bangladesh Bank regulations (Bangladesh Bank PSD Circular No. 07) requires time-bound financial interoperability among all banks and mobile financial service (MFS) providers in Bangladesh (Bangladesh Bank, 2020) to allow clients to send money from their MFS accounts to bank accounts and the other way around. The implementation process should take into account the views of local and international stakeholders, and the recommendations should avoid stifling the full potential of innovation (Gallaher, 2021).

3. Increase digital payments capacity through a market development fund. For organizations such as bKash, Nagad, and others to play a more constructive role in helping Bangladesh achieve financial inclusion, attention must be paid to both sides of the market. It is not enough to provide easily accessible accounts to consumers; they must be able, and want, to use them. This means developing a wide network of merchants that easily and securely accept international networks, bKash or other digital money as payment as well as developing products and services that directly link to customer needs and play a key role in helping improve their livelihoods.

Bangladesh has made great strides toward improving financial inclusion on the consumer side. But even with the advent of bKash, only 30 percent of Bangladeshi adults had made a digital payment in 2017, the latest year covered in the Global Findex survey, and only 16 percent had received a digital payment, such as wages or remittances. And for women, the figures are significantly lower: 17 and 10 percent, respectively. Bangladesh needs a mechanism to encourage digital finance for women and MSMEs. It also needs a mechanism to spread and educate about the benefits of digital payments to more remote and isolated rural areas (beyond urban parts of the country) such as parts of the Chittagong Hill Tracts region.

We have found that targeted incentives, when delivered within a structured program, can help remove some of the structural barriers to digital payments acceptance and usage. Market development funds (MDFs) are programs in which card issuers contribute funds to projects and infrastructure that directly support payment acceptance and usage. Such programs can be aimed at specific merchant segments. In Bangladesh, we recommend establishing an MDF aimed at MSMEs, to help increase uptake of digital payments across the board and help empower smaller merchants, particularly startups, that could be struggling in the wake of the pandemic. Additionally, we recommend placing a focus on female merchants—again, to help the country bridge the continuing gender divide in digital technology. Such a public-private partnership could help Bangladesh capture further gains from using digital payments and expand the reach of its digital payments technology to build the complete digital ecosystem for Bangladesh.

Several other countries have adopted MDFs for specific purposes. Slovakia, for instance, recently launched an MDF specifically aimed at combating COVID-19 impacts. In Asia, Indonesia and Malaysia have both established MDFs as part of their digital strategies (Visa, 2016; Financial Inclusion Global Initiative, 2020 and 2021). In Bolivia, the government established an MDF in 2017, with financial contributions from Bolivian issuers and Visa, to target expanding acceptance beyond major urban areas and modernize payments infrastructure, including introducing e-commerce. Specialized incentives were provided for the usage of digital payments at supermarkets and particular merchant categories (e.g., pharmacies). The government was able to nearly double the volume of payments and increase merchant acceptance fourfold in a market of mostly MSMEs within a period of three years.

A recent paper by the World Bank and the Financial Inclusion Global Initiative (FIGI, 2020) cites examples of how such mechanisms have been used and reviews the literature on this topic.

A small business, gender-focused, and "last mile"-focused MDF measure could build on some of the good work being done in Bangladesh, for example through the International Trade Center's She Trades Commonwealth program, which is working to increase the competitiveness of women entrepreneurs in the agriculture, apparel, and services sectors and helping them connect to global value chains. The International Trade Center (ITC, Bringing Women Led Businesses Online), United Nations Capital Development Fund (UNCDF), Visa, and other important stakeholders have also been supporting the financial and digital capacity building of Bangladeshi MSMEs (UNCDF and Visa, 2021), as part of global targets and commitments such as Visa's global commitment to digitally enable 50 million small businesses worldwide (Visa, 2020). Adding payments digitization could significantly boost these MSMEs' chances of success—and help tackle the remaining gender disparity in the process.

Conclusion

Bangladesh's policies that support innovation, including its push for an open future for payments and its emphasis on digital transformation, have already helped the country become a global leader in digital financial services and weather the pandemic's most devastating impacts. But economic headwinds will make this trajectory difficult to maintain.

To keep the momentum going, we recommend that the government focus on policies that maintain an open system for cross-border trade and data flows. We also recommend that the government take advantage of the innovation and talent in the private sector to jointly confront upcoming challenges. The government should establish an innovative, technology-first approach to public-private partnerships. Finally, we recommend a focus on helping MSMEs, particularly those led by women, to increase their access and usage of digital payments to enable them to compete in a post-pandemic digital age and to reap the benefits of shifting from cash to digital payments. In the author's view, these recommendations will help strengthen the country's resilience and, ultimately, further elevate its trajectory and accelerate economic growth rates.

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The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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