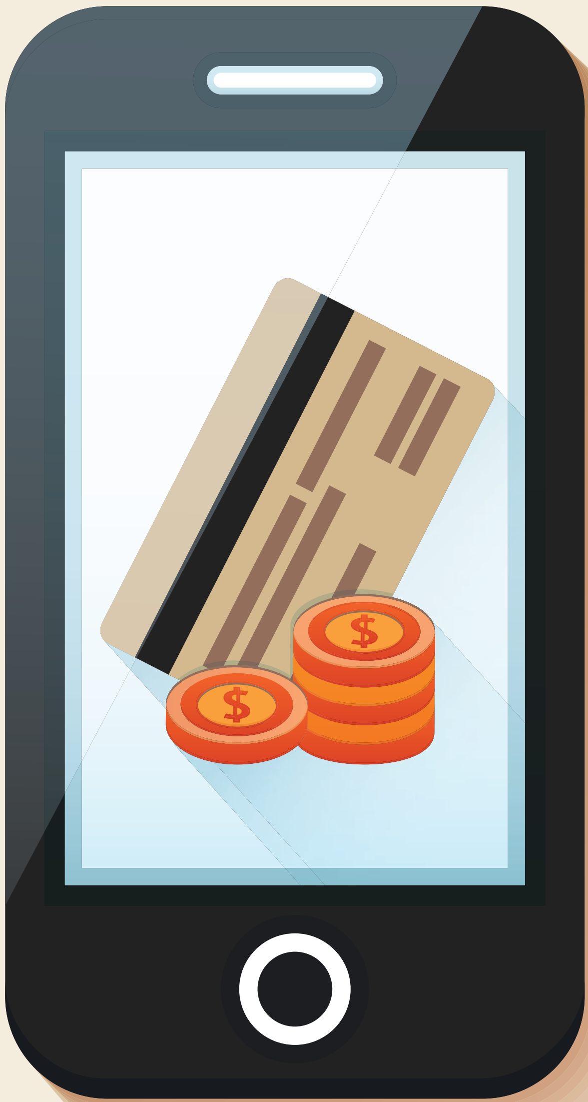
Business Finance
for the Poor
in Bangladesh

Policy Brief

Can MFS in Bangladesh Guide MSEs towards Greater Opportunities?



March, 2018

Background and Context

Considering the rapid adoption of mobile phones in Bangladesh, the central bank (Bangladesh Bank) had issued guidelines for Mobile Financial Services (MFS) in 2011 to ensure easy access to financial services to the unbanked. Since then, the MFS sector in Bangladesh has witnessed significant growth in the number of registered and active users, as well as agents who provide mobile money services. For instance, as of December 2017, there were more than 59 million registered users of MFS (36% of total population) as compared to 42 million in December 2016- an annual growth rate of 40%. Of these registered users, 35% of the clients are active[1] MFS users (see Figure 1). In the global context, Bangladesh is one of the leading countries where MFS has witnessed remarkable growth in the past few years. However, due to limited routine use-cases and compelling value propositions, the MFS market in the country has been limited to a handful of basic services, such as cash-in, cash-out, airtime top-up, and money transfer. For instance, as per December 2017 data by Bangladesh Bank, 81% of the transactions conducted through MFS were cash-in and cash-out transactions[2]. This limitation has largely confined the growth of the MFS sector in the country as well as its expansion across various consumer segments, including Micro and Small Enterprises (MSEs).

The development of MSEs plays a vital role in the social and economic development of Bangladesh.

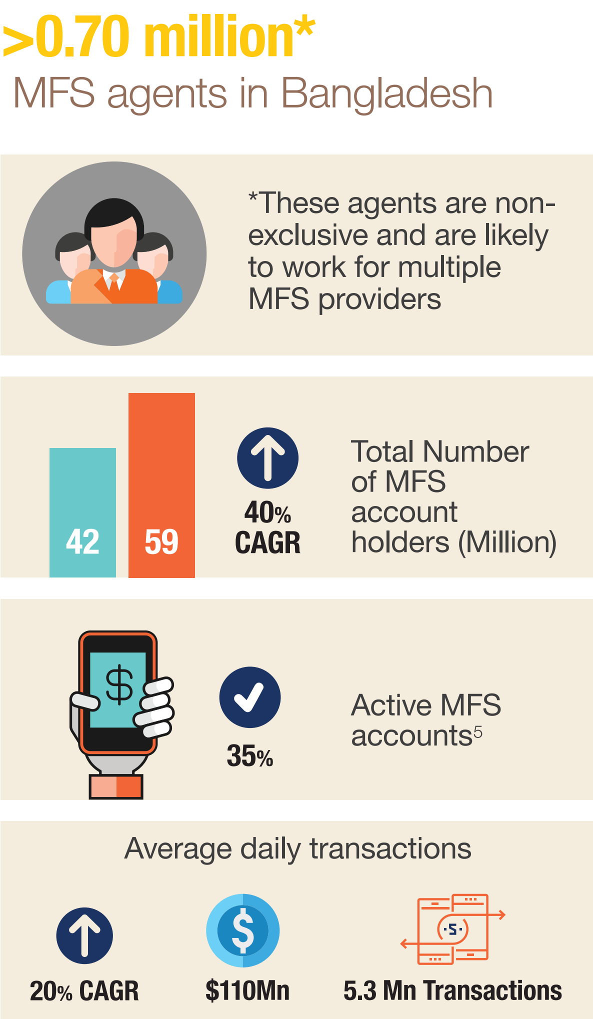
Under its Business Finance for the Poor in Bangladesh (BFP-B) programme[3], Nathan Associates commissioned MicroSave to undertake a comprehensive study, titled ‘Mobile Financial Services for Micro and Small Enterprises (MSEs) in Bangladesh: Prospects and Challenges’. The broad objective of the study was to analyse the existing policies for MFS in Bangladesh, understand the use of MFS by MSEs, and explore the opportunities available to regulators, policy makers, and industry players to address the needs for access to finance of the MSEs by MFS. This policy brief has been drafted in consultation with regulators, think tanks, MFS providers, financial institutions, and fintech players. This brief also presents evidence-based policy recommendations and illustrates a detailed roadmap of implementation for policymakers, regulators, think-tanks, donors, and MFS providers. This policy brief is an ouput of the study titled Mobile Financial Services for Micro and Small Enterprises (MSEs) in Bangladesh: Prospects and Challenges. The aim of this brief is to help develop a comprehensive digital ecosystem in Bangladesh and promote MFS among MSEs.

Government of Bangladesh and Bangladesh Bank recognises MFS as a vehicle to Bring MSMEs under the Formal Financial System

As with most developing countries, Micro, Small and Medium Enterprise (MSME) form the backbone of the economy in Bangladesh. MSMEs play an important role in the economic and social development of the country by fostering entrepreneurship and innovation, enhancing economic dynamism, creating value chains, and developing the financial market.

MSMEs constitute the foundation of the private sector and provide employment to a large number of people, more so in emerging economies like Bangladesh.

Figure 1:



According to latest estimates from the 2013 Economic Census6 conducted by Bangladesh Bureau of Statistics (BBS), there are approximately 8 million MSMEs (non-farm economic units) in Bangladesh. It is estimated that 68.6% of small enterprises7 and 44.7% of medium enterprises lack access to formal financial services.

On the other hand, rapid strides in mobile technology, network capability and availability, as well as consumer adoption has led to an unprecedented rise in the use of MFS in Bangladesh. These numbers signify the unparalleled opportunities available to providers to innovate and offer new types of products and services for various consumer segments in the country.

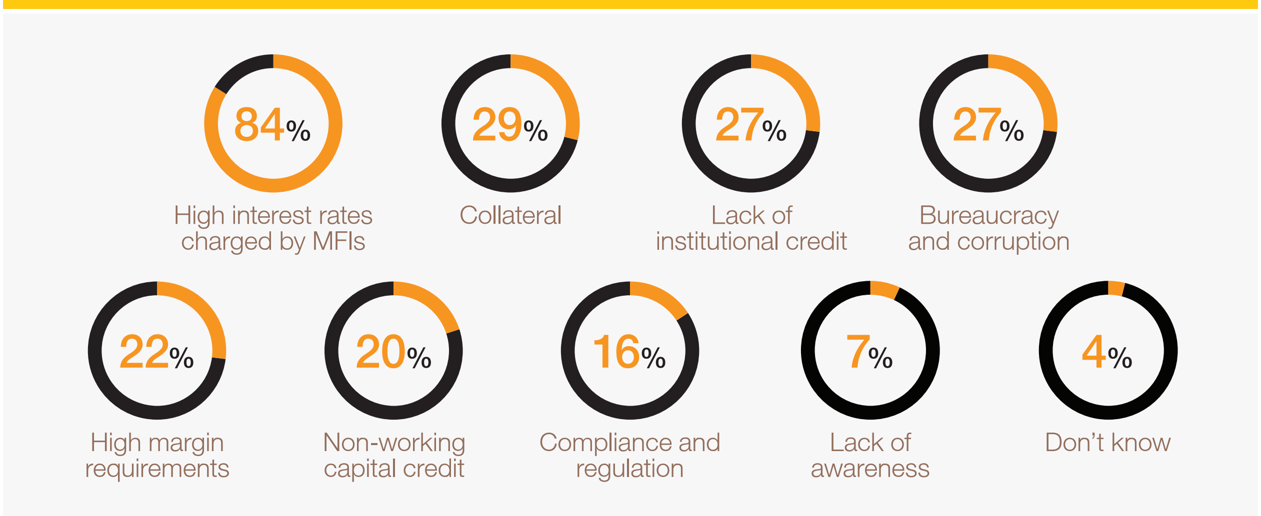
With a view of bringing these MSMEs under the formal financial system, the Government of Bangladesh (GoB), through Bangladesh Bank (BB) has recognised MFS as one of the key mechanisms to meet their financial needs.

Given this context, this policy brief highlights insights from the study. It details out the key policy recommendations, along with a roadmap to develop a digital ecosystem for facilitating various payment solutions and to accelerate the adoption and use of MFS by MSEs in Bangladesh. The complete approach to the study is provided in the final report

MSEs in Bangladesh face Significant Challenges in Accessing Formal Financial Services

Most MSEs face numerous challenges in accessing formal financial services, as listed below in Figure 2.

Figure 2: Challenges in accessing formal financial services



Banks remain the first choice for availing credit for 64% of MSEs. They are considered to be a trusted source of finance that offer credit at a lower interest as compared to MFIs and other formal/informal institutions or channels.

However, MSEs consider the process of filling and submitting a loan application as cumbersome and increasingly complex. There are a number of prerequisites, such as background checks, location verification, and transaction history analysis that MSEs need to satisfy in addition to a long gestation period of at least 15 days from application to the credit of loan amount.

In the rural parts of Bangladesh, most microenterprise owners and their family members have easy access to MFIs. These MFIs readily offer credit to these family members – mostly through the female members. Moreover, the modality of repayment in case of MFIs is well-structured, and the repayment is mostly scheduled on a weekly basis. For most MFIs, however, the rate of interest ranges from 24% to 36% per annum depending on the terms of credit.

At times, some money lenders offer loans at an even higher interest rate, but these are mostly without any documentation/hassle. However, for most MSEs, the repayment model is inappropriate for their type of business. The model of weekly repayments is instead better suited for people who are salaried or operate multiple businesses.

2.73 Million registered MSEs of Bangladesh use their current account to conduct business transactions. While it is mandatory to use a current account for business purposes, the study mentions that the account opening process is quite cumbersome. MSEs find it challenging to meet all the basic requirements involved in opening a current account, such as procuring a business registration certificate, VAT certificate, Tax Identification Number (TIN), filling up the application form, and meeting documentation requirements. For an illiterate MSE owner, it is difficult to comprehend the process. Moreover, bank staff often extend limited cooperation, which results in a reportedly unpleasant experience for MSE owners while visiting a bank branch.

Furthermore, MSEs are unable to access banks easily due to the limited reach of bank branches in rural and semi-urban areas. There is a huge opportunity-cost involved in visiting a bank branch and successfully availing financial services there. In addition, the existing working hours of banks do not suit the business hours of most MSE owners. Eventually, once the bank closes for the day, MSE owners have to scout for other financial service providers, such as MFIs, MFS agents, or other informal channels.

Only 46% of MSEs use MFS regularly to conduct business transactions

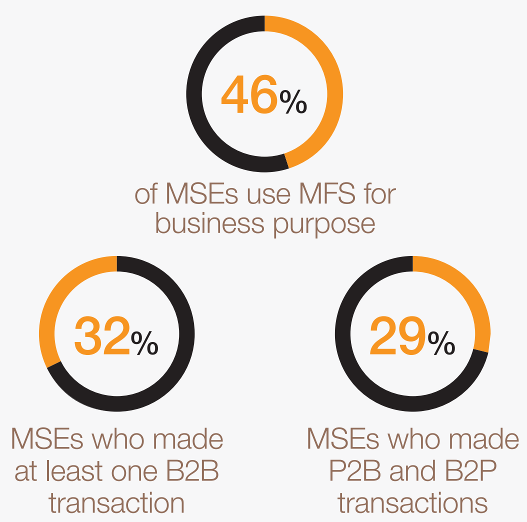
Considering the growth of MFS in Bangladesh in terms of the number of agents as well as registered and active customers, mobile money services hold a significant potential of catering to various segments, including MSEs. MFS providers can use the learning outcomes from other countries, such as Kenya, to understand the business potential of catering to the MSEs by innovating digital payment solutions.

32% of MSE owners use MFS to conduct the following transactions:

- Collecting daily sales from vendors;
- Disbursing salary payments to staff;
- Receiving payments from wholesalers and customers;
- Payments to creditors and wholesalers;
- Payments to staff during emergencies.

Figure 3:

MSEs using MFS for business



There are a number of barriers that limit the usage of MFS among MSEs.

1 Key Regulatory and Policy-related Challenges

- No customized MFS regulation for business usage of MFS accounts
- Non-uniform USSD pricing policy and accessibility for MFS providers
- No interoperability among MFS providers and across banks
- No regulatory environment (sandbox) to promote innovation and incubation of new products for MSEs

2 Key Provider-specific Challenges

- Limited interest among providers to promote MFS for MSEs
- Lack of need-based products such as digital savings/credit for MSEs
- Lack of access to credit through MFS for MSEs
- Lack of competition in the MFS sector

3 Key MSEs-specific Challenges

- Limited use-cases and value propositions of an MFS account for MSEs
- Lack of understanding about transaction limits
- Cumbersome process of making a merchant payment
- High Tariff
- Lack of interoperability amongst MFS providers

1 Key Regulatory and Policy-related Challenges

The current set of regulations on MFS are opaque and non-comprehensive. For instance, existing guidelines on data security, data privacy, customer protection, and risk-management framework, among others, are not entirely clear. Based on anecdotal evidence from stakeholders, the study chiefly indicates the following key limitations to the draft guidelines:

- Lack of justification for the need of revised guidelines;
- Ceiling on ownership of non-bank partners;
- Cap of 15% on shareholding of a single company;
- Disparate licensing and compliance requirements as compared to agency banking;
- No provision for adopting e-KYC and tiered KYC;
- Lack of policies that are likely to drive competition in the MFS market.

There is uncertainty among industry players regarding the ownership of the regulator of MFS as well as the broader agenda of financial inclusion in Bangladesh. There is some confusion in the market regarding the sole supervisor of the MFS business. This is because a dedicated MFS (or Digital Financial Services) department in the central bank to govern and monitor various providers does not yet exist. The Payment Systems Department (PSD), which currently regulates MFS, has been a fairly nascent department that also looks after other activities. Industry experts contend that the ever-growing MFS business in Bangladesh involves multiple players, models, and challenges. As a result, there should be a dedicated department for monitoring and supervision of MFS players in the country.

Moreover, in Bangladesh, MFS providers have to partner with Mobile Network Operators (MNOs) to offer mobile-based services to customers via Unstructured Supplementary Service Data (USSD). This model involves a partnership of the two regulators, that is, Bangladesh Telecommunication Regulatory Commission (BTRC) and Bangladesh Bank (BB). However, there is limited harmonisation and lack of seamless coordination between the two regulators. As a result, industry-level challenges, such as the formulation of a standard, uniform USSD pricing policy, and other related bottlenecks are pending to be addressed.

Many small banks that are already operating and/or are planning to launch their MFS businesses receive non-preferential USSD pricing from the MNOs. For instance, due to a huge volume of business, the dominant MFS players have sufficient bargaining power to offer only 6–8% of their revenues to the MNOs. On the other hand, new and smaller players – most of which have limited customer base and business volumes – are at a disadvantage. They end up sharing around 20–25% of their revenues with the MNOs. Considering that MFS is a low-margin business, this commercial model becomes unsustainable for new entrants and smaller players. It further limits their ability to make significant investments in the MFS business, be it for product innovation, increasing distribution, or improving technology.

A few key stakeholders at the regulatory bodies, such as Microcredit Regulatory Authority (MRA) and BB possess a limited understanding of the current state of the MFS sector in the country. In addition, they have insufficient idea and knowledge about the potential of MFS for MSEs. Consequently, there are only a few pilots for leveraging MFS for MSEs, limited roundtable discussions for promoting MFS among MSEs, and minimal high-level delegation visits to countries where MFS has been successfully expanded to the business line of MSEs.

2 Key Provider-specific Challenges

Most MFS providers/banks in Bangladesh hold a myopic view of MFS. They currently regard MFS only as a product (just like a savings bank account or a debit card), and not as a full-fledged, revenue-earning business. To an extent, this approach has limited the willingness of providers to focus more on MFS and explore its potential avenues. During the study, most stakeholders suggested that a majority of banks are not very optimistic about the future of MFS. As a result, they have not made significant investments in the MFS business.

MFS in Bangladesh is still in its infancy. As on March 2017, data shared by Bangladesh Bank suggests that cash-in and cash-out contributed to 81% of the total value of transactions conducted through MFS accounts. Some providers, in collaboration with partners, such as RMG factory owners and MFIs, have been offering a few MFS-based services. These include salary disbursement, loan disbursement, and merchant payments. However, most of such initiatives are run on a limited scale.

Moreover, there are only a few products that are designed to cater to specific customer segments. It is often argued among industry players that customers view MFS only as a platform to transfer money and not as a ‘mobile wallet’ that could potentially be used to access a plethora of financial solutions. Product innovation remains limited by the low levels of competition in the market. Most banks have adopted a conservative approach to operating the MFS business. Traditionally, banks have been perceived to be risk-averse with limited investment appetite. This is also evident from the fact that most banks in the country have refrained from innovating and launching new products and investing in business expansion. Moreover, a majority of banks lack the appetite and balance sheet-strength to absorb losses that the MFS businesses are likely to incur during their initial years.

For most providers, the MFS business is managed by people with banking experience, and not by those with the right mix of human resources – who have the required experience of Fast Moving Consumer Goods (FMCG), MNOs, information technology and banks, among others. For instance, bKash’s success in Bangladesh is often credited to its core project team, which comprises people with varied experiences of industries other than banking. Their skills of establishing a large network, leveraging technology, and taking quick decisions have been instrumental in building a sustainable business model for bKash.

The MFS market in Bangladesh is somewhat monopolistic and less competitive. The limited competition is frequently attributed to the following reasons:

- Ambiguity in the MFS guidelines on participation of nonbank, third party, and fintech players;
- Unfair USSD pricing policy, especially for new entrants to the market and smaller players;
- Lack of innovative approach of MFS providers;
- Lack of interoperability among players in the MFS market.

In a nutshell, the MFS market as a whole has failed to rationalise service charges or offer quality services to its consumers.

3 MSEs-specific Challenges

Due to limited use-cases, most MSE owners view MFS solely as a money transfer service. Those MSE owners who are comfortable in using cash for business transactions do not see compelling value in the adoption and use of an MFS account for their business. For instance, these MSE owners are willing to use the e-money for paying tuition fees, insurance premium, monthly deposit against Deposit Pension Scheme (DPS) and hospital bills, or for receiving student scholarship and digital credit. But due to non-availability of such services, they are unable to do so.

Presently, the revised daily transaction limits for MFS are capped at 15,000 BDT (USD 180) for deposits and at 10,000 BDT (USD 120) for transfers8. These figures are significantly inadequate for MFS owners, a few of whom generally conducts high-value business transactions. In addition, the transaction charges of using MFS for certain services are higher than banks. For instance, for a cash-out of 1,000 BDT (USD 12), the MFS providers charge approximately 20 BDT (USD 0.24). Paying the same charge, one can withdraw up to 50,000 BDT (USD 600) from most banks.

Less surprisingly, the reach of all MFS providers is not the same in Bangladesh, and only a few dominant players have some presence in remote geographies. A lack of interoperability prohibits a few MSEs, mostly in rural areas, from using MFS for business transactions.

Additionally, most MFS providers lack the feature of 'push' and 'pull', where an MSE owner may send money (push) to the bank account or can load money (pull) from the bank account into the MFS wallet.

For cash-in, MSE owners find it difficult to visit agents during business hours. In rural areas, some MSEs face difficulties due to agent illiquidity. In most cases, only one agent operates in rural areas. As a result, the shortage of funds and float are major barriers that limit the adoption and usage of MFS among MSEs.

Registered MFS users, who do not make business transactions, cite high transaction fees to be the major deterrent in using MFS for business.

Figure 4:

Reasons for not using MFS for business purpose

Key Policy Recommendations to Promote MFS Uptake in Bangladesh in General; and Among MSEs in Specific

Our analysis of existing policies, regulations, and study findings suggest that there is an imperative need for regulators, policy makers, MFS providers, MNOs, and other industry players to adopt a concerted approach in addressing the bottlenecks that have limited MFS uptake in Bangladesh. We have elaborated the following six key recommendations that, when implemented together, are expected to increase the accessibility, adoption, and uptake of MFS among MSEs in the country.

1. Detailed operational guidelines on MFS business accounts and B2B transactions

This recommendation is required to move the MFS beyond cash-in, cash-out and payments. Most MSEs in Bangladesh are aware of MFS. Providers can utilise this awareness to either innovate new products or re-engineer existing ones to develop tailor-made financial and non-financial solutions for the MFS users among MSEs and motivate others to adopt MFS.

There are around eight million MSEs in the country. Of these, the economic census for 2013 identified ~ 2.73 million MSEs which are registered businesses. Our research suggests that MSEs are willing to adopt MFS for business purposes, provided the MFS products are customised to their needs. Therefore, the regulators and providers should work towards creating guidelines for a separate account for business usage. This account would have different features as compared to individual MFS account for a general customer.

The KYC verification for the business accounts can be done using National ID (NID) and valid trade license or TIN certificates. This will help Bangladesh Bank identify unique MFS business account subscribers. Further, this will assist MFS providers to adhere to the AML/CFT regulations prescribed by the central bank. This initiative has significant potential to limit the multiple accounts used by MSEs to facilitate transactions. In the long term, this can enable an interoperable environment where MSEs can transact (push/pull) conveniently between their business partners, vendors, suppliers and customers on a different MFS platform.

It would be useful for regulators to study and understand live, successful examples in other countries such as Kenya and Ghana.

In Ghana, Ecobank Ghana has partnered with KopoKopo, a company focused on building merchant networks for mobile payments, to launch a new initiative called PayWith. This service enables merchants to accept mobile money payments at the point-of-sale through a single account.

Under this model, KopoKopo is the technology partner and will connect issuers to acquirers. KopoKopo’s role includes enabling SMEs to accept digital payments for their products and to benefit from value-added services such as data analytics, business intelligence, and SMS marketing tools.

The Bangladesh Bank and MFS providers need to realise that the MSE owners, in addition to being MFS users are also their front-end change agents who can also educate the customers on the use of MFS and its features. As a result, the Regulators and MFS providers should plan to educate and train MSE owners and staff to act as change agents and promote MFS among customers.

2. Tiered and e-KYC based MFS accounts to open mobile wallet accounts for merchants

The MFS market in Bangladesh requires comprehensive guidelines for merchants to develop an enabling, fair, and competitive environment. The new guidelines should present the central bank’s vision and plans to promote the DFS (and not just MFS) sector in the country. The revised guidelines should define the following in an unambiguous manner: a) Scope of MFS for MSEs; b) Norms to allow for tiered KYC; c) Provision to allow e-KYC; d) Policies for regulating and supervising the MFS usage for businesses across the country.

Tiered KYC will provide the MSEs to exercise the option to open MFS accounts depending on their business requirement. Depending on the business requirement, an MFS provider will seek required documents for verification from the MSEs during registration of a business MFS account. The type of KYC will determine the transaction limit for the merchant or the MSE. This will also ensure that financially excluded merchants or the MSEs can open MFS accounts with ease.

For instance, Pakistan introduced tiered KYC to allow flexible account opening for their financially excluded population. This concept ensured easy KYC complaint account opening. Thus, registering the non-KYC customers into KYC-based registered customers. This model is also followed in Nigeria, Tanzania and Mexico.

In Bangladesh, the MFS providers can provide an option for an e-KYC, where the MSE can self-register through uploading basic necessary documents such as NID and TIN certificate. The MFS provider will not require any physical documents in that case. This can be called as a basic KYC. It will have limitations in transactions limit and these details should be provided to the MSE owner/proprietor. Further, there can be an option provided to the merchant or MSE to upgrade from basic to a full KYC within a duration of 12 months. Full KYC will require physical copies of their latest trade license along with business transaction history. This will not only increase their transaction limit using MFS but also provide some added value-added services.

In case, an MSE is not able to provide the details in the specified time duration, the MFS provider may extend the window to 24 months, depending on the business requirement of the MSEs. This will reduce the risk of the regulators and also ensure the MSEs are KYC Compliant. Recently, the Bangladesh Bank released a notification for One National ID-One Provider - One MFS Account. A similar notification can be released to test the Tiered KYC model.

The new guidelines on MFS for business will bring clarity among the industry players to better understand the intent and vision of the regulator. This is likely to encourage more MFS players to enter the market and innovate new products for a range of customers including the business segment. The resulting competition will then push the market towards reduced competitive charges, better customer service, and innovative products and services for the customers in Bangladesh.

3. Formulate a uniform USSD pricing policy

A uniform USSD pricing policy will simplify the entry barrier and encourage smaller, new MFS players to easily 'plug and play'. The entry of an increased number of such players is likely to drive competition in the monopolistic market of Bangladesh. The regulators should implement a globally accepted and adopted 'session-based USSD pricing' policy.

It is therefore proposed that the regulators should plan to undertake a financial modelling exercise on costing and pricing of a USSD session. It should, however, be noted that such an exercise can be time-consuming. In the interest of market players and MFS users, the regulators can set an interim tariff for USSD sessions. The regulators can learn from countries, such as Kenya and India, to adopt the USSD pricing policy.

A uniform and fair USSD pricing policy will encourage new, small and/or less active MFS players to operate in a level-playing environment. Our analysis suggest that most MFS players, which considered preferential USSD pricing as a bottleneck, would extend its reach, cater to new customer segment, explore new partnerships, and innovate products. A fair pricing environment would enable all players to extend their MFS services to the MSEs, which holds huge potential in Bangladesh.

4. Interoperability among MFS providers and across banks

The MFS market in Bangladesh requires guidelines to develop an enabling, fair, and competitive environment. Interoperability, as a feature, promotes healthy competition among the MFS providers in the market. It will motivate the providers and MSE users across different providers and channel to conduct business on MFS. Interoperability will ensure the complete payment eco-system moves towards a cashless society. However, it requires regulatory intervention and systematic changes to achieve it.

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Recently in 2017 in India, their central bank – Reserve Bank of India have provided a notification to all pre-paid wallet issuers and banks that offer wallet applications to allow wallet to wallet and wallet to bank transfers. While the execution is currently under process by the players, the central bank has given six months to make the transition. This has already set the ball rolling for the providers in India to design their systems to allow interoperability.

The new MFS guidelines for business must present the Bangladesh Bank's vision and plans to promote the DFS (and not just MFS) sector in the country. The vision on interoperability will benefit both the users and the MFS providers. In addition, the guidelines should emphasise on how interoperability will support MFS usage among MSEs. The central bank should allow transactions between MFS account for businesses among multiple providers and must clearly define the transaction limits, the pricing model between two MFS providers and the KYC requirements for customers to conduct interoperable transactions.

It would be useful for regulators to study and understand live, successful examples of interoperability in other countries such as Tanzania.

Tanzania launched mobile money in 2008. Presently, there are four mobile money providers in the country, namely Airtel Money, Tigo Pesa, Vodafone M-Pesa, and Zantel Ezy Pesa. In September 2014, the four providers reached an interoperability agreement to allow their customers to interact with each other. With time, data has emerged that highlights the positive impact of mobile money account-to-account interoperability for various providers.

5. MFS guidelines for MFIs to promote partnership among MFIs and MFS providers

The Bangladesh Bank should work with Microcredit Regulatory Authority (MRA) to improve coordination among Micro Finance Institutions and MFS players and develop a favourable environment for sustainable partnership and fair competition. Firstly, BB and MRA should work together to build commercial agreement between MFS providers and MFIs, and finalise on an agreed cost-sharing model.

Secondly, there should be substantial efforts made to build the capabilities of various players in MFIs and MFS sector on a technical understanding of MFS and MFI operations. This will support in building innovative products and foster investment in building capacity. Moreover, only a few key stakeholders at the regulatory level - Microcredit Regulatory Authority (MRA) and BB possess a limited understanding of the current state of the MFS sector in the country.

In November 2015, **Shakti Foundation** partnered with a prominent MFS provider in Bangladesh – to disburse micro-credit to 70,000 beneficiaries through mobile bank accounts. The average daily disbursement amounts to millions of dollars and the beneficiaries make cardless withdrawals using DBBL ATM. It has been running pilots for this product, alongside pilots for other products, such as repayments and savings collection. While the primary focus of the Foundation remains on women empowerment, it has also been running digital literacy campaigns for women beneficiaries. Shakti Foundation has also been looking towards further digital disruptions into agriculture, MSE and payments solutions, especially for their focused target groups.

The regulators should also explore and understand global best-practices, the use and limitation of technology, payments and settlements, product innovations, interoperability, regulatory framework, and risk and fraud management, among others. The regulators should learn and understand the scope and potential of MFS for other markets, industries, and sectors. For instance, MRA should not only understand the present business of MFS but also interact with key stakeholders, such as SME Foundation. These institutions can provide insights into the functioning of SMEs and can suggest the needs of and challenges faced by MSEs and credit institutions. These interactions should be used as a launch pad to visualise the potential of MFS for MSEs and should be helpful to draft broad contours, such as a regulatory body, product portfolio, and delivery mechanism, among others.

There are various practical options to build the technical literacy, knowledge, and skills of the regulators on the potential and use of DFS. The regulators, for instance, should undertake exposure visits to various countries to explore specific thematic areas. For instance, they could visit India to learn about supervision, small finance banks, payments bank, e-KYC, tiered KYC, and Direct Benefit Transfers (DBT). In certain cases, the regulators can partner with Alliance for Financial Inclusion (AFI) for the exposure visits. In addition to the visits, the regulators should plan training and mentoring sessions for high-level stakeholders and staff members to impart technical knowledge of DFS. For this, the regulators can engage with globally reputed training institutes like the Helix Institute, or experts from other countries.

For these initiatives, the regulators can seek financial as well as technical assistance from various international donor agencies to build their capacities, both by knowledge-sharing and learning from global practices. In essence, it is imperative to acknowledge that collaboration among various regulators such as Bangladesh Bank and MRA would be the key enabler to develop a comprehensive DFS ecosystem in Bangladesh.

6. Revise MFS guidelines to allow all financial service providers to leverage MFS platform

The preference and uptake of MFS in Bangladesh can potentially increase through the introduction of certain products, such as companion cards and specialised services. One such service can be the provision of providing digital credit, which would be especially useful for MSEs. A tangible product like digital credit is needed to gain the trust of the MSEs on MFS. The Regulators and Financial Service Providers can build on the learnings from other countries, such as Kenya's M-Shwari, which has been successful in launching digital credit and have witnessed significant growth in their mobile money business. In addition, providers should deliver additional services like transaction history for all the transactions, especially for MSEs. The providers and banks must develop a mechanism to build upon the usage pattern of MFS account and cross-sell other products. These products can be short-term credit (three to six months), micro-insurance, a facility for loan re-payment, provision to pay taxes to the government (P2G), and salary disbursements. In addition, the MFS providers can build products around use-cases, such as school and college fee payments, term-loans, and utility bill payments.

The providers can partner with Banks, NBFIs and MFIs for products such as short-term credit and loan repayments. They should split the market into segments, based on demographics, preferences, lifestyle, transaction points, and income pattern. Based on the segments, the providers, in agreement with various financial service providers, should then conceptualise and promote various use-cases and tailor-made value propositions. The providers should also simplify their USSD User Interface (UI) and include vernacular language support.

Our analysis suggests that more use-cases will encourage more users to adopt and use MFS for various personal and business needs. This is also substantiated by the fact that MFS is considered to be a much accessible and convenient option to transact than other modes.

Commercial Bank of Africa (CBK) and **Safaricom** envisioned M-Shwari as a revolutionary product that would help meet its agenda of achieving complete financial inclusion in Kenya by 2030. M-Shwari came into existence as a natural progression from M-Pesa, providing a savings and instant loans service. Safaricom launched M-Shwari to allow customers to access instant loans of $1.15- $229.88 any time in their M-Pesa wallets. M-Shwari's initial success in Kenya may partly be attributed to the success of M-Pesa. As it was a natural progression from M-Pesa's services – offering loan and savings products – M-Shwari became a technically easy product to handle. M-Shwari was able to penetrate easily into the Kenyan mobile market, considering its easy-to-understand product features, paperless verification, credit scoring based on past history, no minimum balance requirements, and simplified fee structure.

A Policy Roadmap for Accelerating the Usage of MFS among MSEs in Bangladesh

After analysing current policies, regulations, and study findings, MicroSave developed a detailed roadmap to suggest key action points to stakeholders. These action points have been designed to support the MFS sector in Bangladesh to develop a holistic digital ecosystem. For each action area, the roadmap also illustrates the implementation partners, key challenges to implementation, and potential outcomes. It is likely that the implementation partners would need to consider the views and consultations of various stakeholders as well.

Detailed operational guidelines on MFS business accounts and B2B transactions

Bangladesh Bank

Existing Challenges

C1 No clear guidelines on business accounts and B2B transactions

C2 Clearly identifying MSEs roles in MFS

Action Points

A1 Develop guidelines for MFS accounts for business usage and B2B transactions

A2 Ensure that MFS guidelines complement agent banking guidelines

A3 Clarify central bank's vision to promote DFS in the country

A4 Define scope of DFS/MFS, norms to allow KYC verification, risk management, data privacy, and customer protection

A5 Elaborate policies to promote partnerships, competition, innovation, and entry of new MFS players

Expected Outcomes

01 Clarity among market players on central bank's plan to promote the uptake of MFS for business

02 Entry of more, serious Players for MFS for business

03 ~2.73 registered MSEs to use MFS for business

Tiered and/or e-KYC based MFS accounts to open mobile wallet accounts for merchants

Bangladesh Bank, BTRC, MFS providers, MNOs, fintechs, and other third party players

Existing Challenges

C1 No separate KYC for merchants by leading MFS providers and other players in the market

C2 Limited understanding on e-KYC

Action Points

A1 Guidelines on scope of MFS for MSEs, norms on tiered KYC, provision to allow e-KYC

A2 Tiered KYC to be based on business requirement of merchants

A3 Option to upgrade from basic to full KYC

A4 Ensure KYC compliant of all users to adhere to AML/CFT regulations

A5 Incentivise merchants and MSEs for creating a KYC registered MFS account

Expected Outcomes

01 Clarity among industry players to better understand the intent and vision of regulator

02 Encourage MFS players to enter market with new products for business

03 Increase in B2B transactions using merchant accounts

Formulate a uniform USSD pricing policy for all MFS providers

BTRC, BB, MFS providers, and MNOs

Existing Challenges

C1 Resistance of some MFS providers to adopt session based pricing

C2 Time delay in undertaking financial modelling exercise

Action Points

A1 Develop session based USSD pricing policy adopted globally

A2 Undertake a financial modelling exercise on costing and pricing of USSD sessions

A3 Suggest interim tariff for USSD sessions till completion of the exercise

Expected Outcomes

01 Fair, uniform USSD pricing policy

02 Encouraging policy for small players to 'plug and play'

03 More competition in the market

04 Averting revenue sharing disputes between MNOs and MFS providers

Interoperability among MFS providers and across banks

Bangladesh Bank, Banks and MFS providers

Existing Challenges

C1 No transfer possible among MSEs across different provider platform

C2 Lack of healthy competition among MFS providers in the market

Action Points

A1 Interoperability to allow transactions between different MFS provider and different banks

A2 Clearly defined transaction limits

A3 Well defined pricing model between MFS providers

A4 Provision for inclusion in the existing MFS guidelines or new operational MFS guidelines for business

Expected Outcomes

01 MSEs to provide transfers and payments to vendors and suppliers on different MFS platform

02 Greater uptake of MFS by MSEs

03 More compelling value propositions for MFS users

MFS guidelines for MFIs to promote partnership among MFIs and MFS providers

Bangladesh Bank, MRA and MFS providers

Existing Challenges

C1 No guidelines for MFIs to use MFS platform for products and services

C2 No model to foster investment in capacity building of MFI staff on usage of MFS for their products

Action Points

A1 Build commercial agreement between MFS providers and MFIs use MFS for MFI products and services

A2 Link MFS accounts to MFI accounts to enable push/pull transactions

A3 Build the capabilities of various players in MFIs and MFS sector on a technical understanding of MFS and MFI operations

Expected Outcomes

01 Comprehensive DFS ecosystem in Bangladesh

02 Product portfolio of MFIs on MFS platform

03 Build staff capacity around more products

Revise MFS guidelines to allow all financial service providers to leverage MFS platform

Bangladesh Bank, MFS providers, MFIs and relevant financial service providers

Existing Challenges

C1 No new value proposition on MFS except cash-in and cash-out

Action Points

A1 Allow banks, MFIs and other NBFCs to provide financial and non- financial products on MFS platform

A2 Allow short-term credit, micro-insurance, loan re-payment and other services on MFS platform

A3 Ensure tailor-made value propositions using different customer demographics and financial transactions

Expected Outcomes

01 Increased uptake and usage of MFS by MSEs

02 Increase in product portfolio of MFS providers

Conclusion

There is little doubt about the enormous scope in the MFS sector in Bangladesh. There is a significant chance for stakeholders to bring about innovation, promote competition, generate consumer awareness, and facilitate sustainable partnerships to move the MFS sector beyond payments in the country. If providers and policymakers implement these recommendations while taking stakeholders' view into account, it would change the MSE landscape in the country and further the agenda of financial inclusion through MFS.

Endnotes

1. An MFS user who has conducted at least one financial or non-financial transaction in three consecutive months (90 days) is considered as an active user.
2. Bangladesh Bank, *"Data on Mobile Financial Services in Bangladesh"*, December 2017.
3. To promote innovative finance and financial services for micro and small enterprises, UKaid from the UK government has funded a five-year programme in Bangladesh- Business Finance for the Poor in Bangladesh (BFP-B). Bangladesh Bank (BB) is the implementing agency, and the Bank and Financial Institutions Division (BFID) of the Ministry of Finance (MoF), GoB is the executing agency for this programme. The programme is jointly managed by Nathan Associates London Ltd. and Oxford Policy Management.
4. Mobile Financial Services (MFS) comparative summary statement, Bangladesh Bank, accessed on August 1st, 2017, https://www.bb.org.bd/fnansys/paymentsys/mfsdata. php. In Bangladesh, agents are non-exclusive i.e. an agent may serve more than one MFS provider. As a result, this number may include repeat counting.
5. Mobile Financial Services (MFS) comparative summary statement, Bangladesh Bank, accessed on August 1st, 2017, https://www.bb.org.bd/fnansys/paymentsys/mfsdata. php
6. *"Strategy for Development of the SME Sector in Bangladesh"*, Bangladesh Institute of Development Studies, Dhaka, January 2014
7. *"Strategy for Development of the SME Sector in Bangladesh"*, Bangladesh Institute of Development Studies, Dhaka, January 2014
8. Mobile Financial Services (MFS) Circular, Bangladesh Bank, accessed on August 3rd,2017, https://www.bb.org. bd/fnansys/ paymentsys/mobilefin.php

About BFP-B Project

Business Finance for the Poor in Bangladesh (BFP-B) is a £25m facility to create economic opportunities for small businesses by changing the behaviour of market actors in the financial sector. BFP-B is improving the policy and regulatory environment for financial institutions, inducing private sector investment in expanding the frontiers of finance, and enhancing the credit worthiness of small businesses. BFP-B programme funded by UKaid from the British Government. The Bangladesh Bank and Microcredit Regulatory Authority (MRA) are the implementing agencies, and the Financial Institutions Division of the Ministry of Finance, Government of Bangladesh, the executing agency of this programme. Nathan Associates London Ltd, in consortium with Oxford Policy Management, is the management agency for the programme.

BFP-B Partners

Bangladesh Bank

Bangladesh Bank, the central bank and apex regulatory body for the country's monetary and financial system. The key functions of Bangladesh Bank are formulation and implementation of monetary and credit policies, regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets, management of the country's international reserves and issuance of currency notes.

www.bb.org.bd

Microcredit Regulatory Authority (MRA)

The Microcredit Regulatory Authority (MRA) has been established by the Government of the People's Republic of Bangladesh under the "Microcredit Regulatory Authority Act 2006" to promote and foster sustainable development of microfinance sector through creating an enabling environment for NGO-MFIs in Bangladesh. MRA is the central body to monitor and supervise microfinance operations of NGO-MFIs.

www.mra.gov.bd

UKaid

BFP-B Project is funded by UKaid from the UK government through the Department for International Development (DFID) which leads the UK's work to end extreme poverty that includes ending the need for aid by creating jobs, unlocking the potential of girls and women and helping to save lives when humanitarian emergencies hit. The UK government is currently among the largest bilateral development partners to Bangladesh.

www.gov.uk

Management Agency

Nathan Associates London Ltd.

Nathan Associates is a private international economic and analytics consulting firm established in 1946 that works with government and commercial clients around the globe to deliver practical solutions through building frameworks for economic growth or navigating regulatory hurdles, securing infrastructure financing or evaluating and assessing disputes. Nathan Associates London has been awarded the contract by DFID to deliver technical and financial assistance under the BFP-B Project.

www.nathanlondon.co.uk

This policy brief has been prepared by extracting the findings of the study on "Mobile Financial Services for MSEs in Bangladesh: Prospects and Challenges" conducted by MicroSave for the Business Finance for the Poor in Bangladesh (BFP-B) Project funded by the UKaid/ DFID. The views expressed in this policy brief are entirely those of the authors, and do not necessarily reflect the views of BFP-B Project, DFID, MicroSave or any other affiliated organisations.

Executing Agency: FID MoF

Implemented by: Microcredit Regulatory Authority

Managed by: NATHAN Trusted for Excellence; Oxford Policy Management

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