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BANGLADESH COUNTRY ASSESSMENT

REPORT ON INCLUSIVE INNOVATION STRATEGIES IN MIGRANT REMITTANCES AND FINANCIAL SERVICES

October 2022

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Acronyms

AED	United Arab Emirates Dirham
API	Application Programming Interface
BDT	Bangladeshi taka
BMET	Bureau of Manpower, Employment, and Training
BMGF	Bill and Melinda Gates Foundation
BSEC	Bangladesh Securities and Exchange Commission
EMI	Equated Monthly Instalment
FD	Fixed Deposit
FSP	Financial Service Provider
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GSMA	Groupe Speciale Mobile Association
IFAD	International Fund for Agricultural Development
IOM	International Organisation for Migration
IVR	Interactive Voice Response
KYC	Know Your Customer
MFS	Mobile Financial Service
MOHR	Ministry of Human Resources
MTO	Money Transfer Operator
MYR	Malaysian Ringgit
NID	National Identity Card
PIN	Archetypal Identification Number
RSP	Remittance Service Provider
SME	Small-Medium Enterprise
UAE	United Arab Emirates

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Executive Summary

One of the key aims of the United Nations Capital Development Fund (UNCDF) is the improvement of the functioning of the remittance market to increase the financial resilience of migrant families. Globally, one billion people (1 in 7 people) send and receive remittances.¹ With a mandate to drive financial inclusion goals, with a particular focus on the world's 46 least developed countries (LDCs), UNCDF efforts strengthen access to and usage of digital remittance channels toward financial resilience for migrants and their families. Following an overview of the status of inclusive innovation at the product, institution, and ecosystem levels, the Inclusive Innovation Assessment for Bangladesh proposes recommendations for key stakeholders to make remittance products innovative and inclusive.

Remittance flows are crucial to socio-economic development in Bangladesh and represent about US\$21 billion or 5.1 percent of the country's GDP.² While remittances in 2020 were falling worldwide, Bangladesh was one of only three large remittance-recipient countries that registered a significant increase in inflowing remittances during the COVID-19 pandemic. This was due to a combination of factors, including the transition of remittances through informal channels to formal channels, migrants dipping into their savings, the Bangladesh government's cash incentive for using formal channels, the cancellation of the *Hajj* pilgrimage to Mecca, and floods in Bangladesh in July 2020 prompting increased flow of remittances to migrants' families. The top destinations for Bangladeshi migrants are Saudi Arabia, UAE, Malaysia, and Kuwait, while Saudi Arabia, UAE, and Kuwait are the top three countries based on remittance volumes.³ The growth of remittance inflows (6 percent per year)⁴ has outpaced emigration growth (1.6 percent per year),⁵ spurred by the development of the payment and financial market infrastructure, enabling policies and regulations, and matured digital financial services ecosystem. Women migrants comprise 33 percent of the total migrant population from Bangladesh⁶ but represent only 2.1 percent of the formal remittance senders,⁷ indicating a significant gender gap in access to remittance services. On the receiving side, women make up 65 percent of recipients of remittances in Bangladesh.⁸

Bangladesh has a bank-led remittance ecosystem, where only banks or bank-linked Mobile Financial Service (MFS) providers are allowed to process remittances. The uptake of digital remittance products on offer (wallets and bank transfers) has seen a sharp increase in recent years, with digital remittances as a percentage of total remittances increasing from 11 percent in 2016 to 24 percent in 2020.⁹ However, a large proportion of the recipients still depend on agents/cash-out networks to receive remittances. Recipients collect 50 percent of remittances at cash pickup points, and this rate is even higher in rural areas, where 70 percent of remittances are collected through agent banking networks.¹⁰ Additionally, Bangladesh has a large number of informal remittance channels. Before the pandemic, 40 percent of remittances into the country were received through informal channels¹¹ due to ease of access, pricing considerations, and a lack of awareness about formal financial products. On the sending side, providing digital alternatives to reducing

¹ (UNDESA, 2019)

² Bangladesh Bank Statistics, 2021-22

³ (UNDESA, 2020)

⁴ (Knomad, 2020)

⁵ (UNDESA, 2020)

⁶ (UNDESA, 2020)

⁷ (Bangladesh Bank, 2022)

⁸ (Bangladesh Bank, 2022)

⁹ (Better Than Cash Alliance, 2022)

¹⁰ (Bangladesh Bank, 2022)

¹¹ (IOM; Colombo Process; SDC, 2019)

reliance on time-consuming bank transfers (especially for GCC countries requiring time off from work) could unlock significant benefits for migrants.

From a product perspective, deepening a focus on inclusion among banks and incorporating a solid gender lens in the design of digital services is key to scalable financial services in Bangladesh. Advancing migrant-centric product development for banks that provide remittance services presents a significant opportunity as digital bank transfers remain a popular digital channel. Although stakeholder interviews suggest that wallets are being used primarily for emergency remittance transfers and given the cash-out charges, their usage is growing steadily,¹² indicating more use cases. Additionally, while banks' agent networks play a crucial role in expanding financial inclusion and furthering the provision of remittance services, the network has a significantly higher share of agents who are men (less than 1 percent of agents are women), [exacerbating gender-specific barriers that women face and undermining the evidence on the performance of women agents](#).

In Bangladesh, while selected banks and digital wallets cultivate an innovation culture for remittance products, many tend to be hierarchical, without an explicit focus on inclusion. In the last few years, banks have proactively responded to the emerging demands of remittance customers on the receiving side. However, remittance players appear to have a limited understanding of the customer's needs and challenges on the sending side, limiting their ability to implement an adapted migrant-centric approach toward product development. Additionally, while some Remittance Service Providers (RSPs)/banks analyze gender-disaggregated data to understand the experience of women customers, this practice is not yet widespread. It represents a valuable tool to enhance migrant-centric inclusive innovation in the country. At the organization level, the representation of women in leadership roles is likely to remain a challenge, as evidenced by the low levels of women leadership (9 percent) in fintech companies at the regional level (South Asia), and hence represents a potential avenue to drive inclusive innovation within the organization.

A robust fintech innovation ecosystem and large-scale regulatory interventions to adopt formal payment channels have the potential to foster inclusive innovation in Bangladesh. Bangladesh's venture capital ecosystem is growing steadily, and fintech is one of the top three investment areas, indicating a potential for private-sector innovations to propel innovation in the remittance sector in Bangladesh. However, gender inclusion must be intentionally strengthened by facilitating innovation capital for women entrepreneurs and customers. There is an opportunity for banks/RSPs to leverage Bangladesh's national ID platform for e-KYC services for underserved segments to use digital financial services.

This assessment highlights six key thematic areas across three levels of intervention—Ecosystem, Institution, and Products—that require further attention to ensure migrant remittances are accessible and affordable and help drive financial inclusion for underserved populations in Bangladesh. Those thematic areas include:

These include:

- Ecosystem
 - Supporting digital payment infrastructure: given the scope of creating a shared market infrastructure through smart NID as e-KYC and MFS wallet interoperability.
 - Expanding the scope of remittance service provision: given a bank-led model limiting the scope of innovation by other non-Bank remittance service providers.
- Institution

¹² Shifting from cash to digital remittances during the pandemic: A case study of BRAC Bank in Bangladesh; UNCDF, 2022

- Kickstarting a financial service-focused innovation ecosystem: given the vulnerabilities of the migrant families from the high cost of migration and overall lack of migrant-centric financial products contributing to their financial resilience.
 - Incentivizing investment into R&D for RSPs: given the limited capability of the RSPs in financial literacy and data-driven decision-making, especially around gender-sensitive products and delivery mechanisms.
- Product
 - Driving product uptake for underserved segments through financial interventions: given limited financial and technical capacities of the RSPs to respond to the need of the migrants around deepening of financial products.
 - Building institutional capacity/knowledge to service underserved or unserved segments: given the gender gap in digital remittance channels, viz. MFS and agent banking, and lack of understanding at the RSPs around the need and preference of the migrants (especially women migrants and recipients) from the delivery channels and digital remittance products.

Introduction

ABOUT THIS REPORT

The United Nations Capital Development Fund (UNCDF) aims to make public and private finance work for the poor in the world's 46 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest, market failures are most pronounced, and benefits from national growth tend to leave people excluded.

One of UNCDF's key ambitions is to improve the functioning of the remittance market to increase the financial resilience of migrant families while strengthening the economic development efforts of the origin and destination countries. UNCDF supports moving away from dominant cash-based models and toward digital channels—in other words, the end-to-end digitization of remittances—as this holds the key to driving down costs, increasing convenience, and promoting transparency. Remittances are also seen as the gateway product for additional financial services, both because remittances are such a universal feature of the migrant experience and due to their extensive last-mile distribution networks creating opportunities for service-aggregation at the last mile. UNCDF efforts to facilitate access to and usage of remittances toward the financial resilience of migrants and their families are enabled through four workstreams, (i) enabling policy and regulations, (ii) empowering customers, (iii) open digital payment ecosystems, and (iv) inclusive innovation. A systemic gender mainstreaming strategy¹³ is at the heart of all workstreams. UNCDF believes that the remittance ecosystem will never achieve its full potential unless gender dimensions are considered.

Under the Inclusive Innovation Workstream, UNCDF helps Remittance Service Providers (RSPs) enhance their innovation strategies and make them more inclusive. The aim is to equip RSPs with the necessary tools to develop innovative products, inclusive of migrants, that drive usage and are commercially viable. This would also help create opportunities for tailored financial products and services that can be offered through digital channels, in turn supporting financial resilience and well-being.

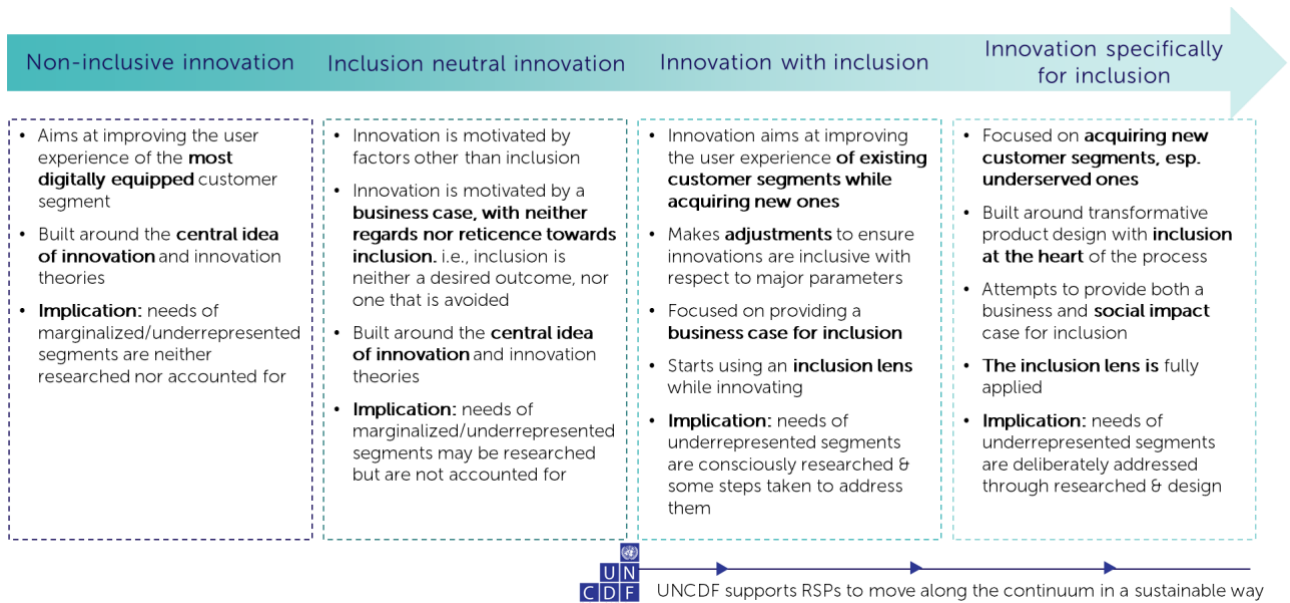
UNCDF uses Country Assessments to understand the existing remittance market and where there may be opportunities to further remittance services' access and usage, and subsequently, migrants and their families' financial resilience. This readiness and potential can be mapped on an Inclusive Innovation Spectrum, as shown in [Error! Reference source not found.](#). The continuum depicts a spectrum of scenarios and situations where a country—including its RSPs and the wider ecosystem—is positioned with respect to its readiness and inclination toward a customer-focused market. The various players involved in the remittance system, including consumers (on the sending and receiving end), RSPs, other financial service providers (including but not limited to fintech companies, Mobile Network Operators (MNOs), banks, insurance companies, digital credit lenders, microfinance institutions) and regulators, play distinct roles in driving, achieving, and supporting inclusive innovation.

In an ideal inclusive innovation ecosystem, customers, both men and women, express their realized and latent needs, which guide RSPs and other Financial Service Providers (FSPs) in the definition, development, and provision of remittance and linked financial services. The regulator plays a facilitator and catalyst role for innovation and inclusion—for instance, the state might support innovation in the remittance space, call

¹³ [UNCDF's Migrant Money – Gender Mainstreaming Strategy](#)

on stakeholders to mobilize resources, or subsidize services for specific underserved segments. The government can also create a conducive regulatory environment for innovation through strong policy enablers. Therefore, each of these players can contribute to the emergence of innovation and inclusion or lack thereof.

Figure 1 Elements and characteristics of the inclusive innovation continuum



This country assessment provides an overview of the level of inclusive innovation practiced at the product, institution, and ecosystem levels in Bangladesh. The report provides a background on the remittance sector in Bangladesh and across key corridors (Chapter II). On the innovation spectrum, it then assesses the inclusiveness of (i) remittance products, (ii) RSPs as institutions, and (iii) the broader ecosystem through a series of assessment parameters (Chapter III).

Furthermore, the country assessment provides options for consideration by regulators and market players to support gender-smart and migrant-centric innovation in the country. The report outlines pathways for RSPs to become increasingly gender-smart and migrant-centric; it also proposes options for the regulator and investors to support such shifts toward inclusive innovation.

This country assessment closely studies two key remittance corridors. In Bangladesh, these are the corridors between (i) UAE and Bangladesh and (ii) Malaysia and Bangladesh. This Assessment looks at Bangladesh as a remittance-receiving state (or the migrants' country of origin). The two corridors were identified using various selection criteria, including transaction volume and migration, geographical coverage, gender diversity, and ecosystem readiness (see Annexe 1).

KEY METHODOLOGICAL ELEMENTS

The methodology underlying the planning and execution of country assessments has been detailed in the **Inclusive Innovation Assessment Guide**. This section provides a high-level overview of the key methodological elements. The Guidelines enable different UNCDF players and development organisations, RSPs, Investors, Regulators, and other market players to conduct a similar assessment in other countries. These Guidelines are open source and include tools and templates for the standardized assessment of the application.

The Guidelines are based on the fundamental principles of making remittance products more migrant-centric and gender-smart. UNCDF recognizes the importance of addressing the gender dimensions of remittance access even as remittance and financial products for migrants globally tend to often take a gender-blind approach. Women often experience financial inclusion differently from men, and this experience is further exacerbated as a migrant. Additionally, a migrant-centric and gender-smart approach recognizes that migrants' challenges in access to formal financial systems are different from other customers. To support RSPs in moving away from the current 'one-size-fits-all' approach to designing digital remittances, UNCDF is proposing this novel, migrant-centric and gender-smart approach. While the concepts of 'customer centricity' and 'gender smartness' are not new and have been applied to other areas of inclusive finance, very little has been written on an approach that combines both concepts and applies them in the context of remittances and migrant product design.

Such an approach can help drive better business and development outcomes. It leads to an increased customer base and cross-selling opportunities from a business perspective while strengthening local economies and the financial well-being of migrant households.

Table 1 provides examples of how certain product features can influence the inclusiveness of formal remittances.

Table 1: Example of how certain product features can influence inclusion

RSPS' INTRINSIC PARAMETERS		RELEVANCE TO RSPS' INCLUSIVE INNOVATION
Product level	Product offering	<ul style="list-style-type: none"> • The presence of a product design process that incorporates the voice, choice, decisions, control and skills of diverse subgroups of customers to strengthen product offering is indicative of companies practicing inclusive innovation. • Direct costs (transaction fee, forex spread, compliance costs, limited financial market infrastructure) and indirect costs (financial capability, fraud, dispute resolution, transport, opportunity costs, etc.) incurred by the sender and recipient are critical factors for inclusiveness, given that underserved communities generally have limited financial means and often must face high indirect costs. • Low frequency of IT incidents and complaints and the presence of transparent information systems and data protection drive inclusion as they help drive trust in digital technologies and platforms among underserved segments. • Bundling additional value-added services (e.g., utilities and payments) on top of remittance products helps drive usage and ensure liquidity within the formal financial ecosystem. • Enabling a downstream digital ecosystem to incentivize migrants and their families to adopt financial products and services—deposits,

		<p>savings, credit, insurance, pensions, investments—through digital platforms rather than cashing out.</p>
	<p>Delivery of service</p>	<ul style="list-style-type: none"> • Delivery channels drive geographical and demographic penetration of services for more inclusion, as access to digital channels is low among women and other underserved groups in many countries. • Agencies staffed and set up with an intentional focus on inclusion, ensuring that customers are comfortable interacting with the distribution mechanism and interface, whether physical, digital, or a mix of the two, are more inclusive. • Availability of an agency network that makes it easy to cash out. This significantly impacts inclusion as the recipient’s ability to access and use remittances easily is often the key deciding factor for the sender in his/her choice of RSP. • Accessibility to customer care support (including non-digital methods) positively impacts inclusion as it helps less financially/digitally literate segments to have their complaints heard and addressed. • Including customers’ feedback in the next cycle of product refinement or development—especially that of under-represented customers—can lead to increased levels of inclusion.
	<p>Communication and marketing</p>	<ul style="list-style-type: none"> • Communication and marketing that use the channels and mediums most frequently employed—and most trusted—by different population segments (incl. word of mouth/flat networks for women) help ensure equitable distribution of information, avoid information asymmetry, and increase access and usage, especially by underserved segments. • Communication and marketing that address underserved segments’ specific concerns regarding formal channels around costs, reliability, and access lead to increased inclusion by supporting behavioural changes among these segments.

Different RSP characteristics can impact their ability to innovate, as well as their capacity to reach underserved customers. Table 2 provides some concrete examples of how certain features of RSPs can influence their ability to innovate in an inclusive way.

Table 2: Examples of how RSPs' characteristics can influence their ability to innovate in an inclusive way

RSPs INTRINSIC PARAMETERS		RELEVANCE TO RSPs' INCLUSIVE INNOVATION
Institutional level	Innovation strategy	<ul style="list-style-type: none"> • Active data analytics of uptake trends help drive customer-centric innovation by tailoring product offerings to evolving customer preferences. • Lean business models are better suited for inclusive innovation as they allow tweaking core business processes in response to market demands. • Ensuring the diversity of focus groups testing new products (gender-balanced, diversity of age, rural and urban dwellers, income levels, etc.). • The existence of an innovation culture within the organization, ensuring that skills and mindsets are being nurtured to fuel innovative projects, is crucial to stimulate innovation.
	Organizational capabilities	<ul style="list-style-type: none"> • Agility in organizational structure is critical to support strategy shifts and innovation. • Capacity and (market research) systems are in place for continuous customer engagement and gender-disaggregated data collection. • The capacity to mobilize internal or external financial and human capital resources for innovation is critical to successful innovative product development. • The capacity to engage in and leverage partnerships (e.g., correspondent partnerships, distribution channels, investors, and market players) can be critical to support innovation and strengthen RSPs' understanding and use of an inclusivity lens. • Gender-focused strategy to ensure diverse and gender-balanced workspaces within RSPs are critical to achieving inclusive innovation.

Table 3 provides some concrete examples of how the ecosystem can influence RSPs’ ability to innovate in an inclusive way.

Table 3: Examples of how the ecosystem can support or detract from inclusive innovation in remittances

		RELEVANCE TO RSPs’ INCLUSIVE INNOVATION
Ecosystem level	Innovation stimulus	<ul style="list-style-type: none"> Active innovation communities (including universities, incubators, etc.) help foster innovation by identifying areas for new product research based on critical market gaps. They also further innovation by providing technical and financial support to inclusive and innovative products at the ideation stage. The availability of VC/debt for financing helps new ideas flourish in the remittance ecosystem by acting as a clear financial incentive and innovation. Robust and active industry associations lead to favourable environments for innovation and inclusion by better representing the industry's interests to regulators.
	Policy and Regulatory	<ul style="list-style-type: none"> The presence of enabling regulations like those supporting the establishment of remittance legal and regulatory frameworks, clear partnership guidelines between MTOs and agents, risk-based Know Your Customer (KYC) requirements and effective customer complaint procedures foster inclusion by enabling RSPs to service a larger proportion of the population. The appetite for providing subsidies (by government or other donors) greatly enhances inclusion as it helps de-risk harder-to-reach underserved segments for RSPs.

This report builds on existing knowledge captured in interlinked workstreams, namely the enabling policy and regulation, the empowered customer, and the open digital payment ecosystem workstreams. Thus, it capitalizes on strong synergies among UNCDF frameworks and assessment guides.

This report was informed by both secondary research and a series of interviews. Annexe 2 provides an overview of key stakeholders interviewed for this Bangladesh Country Assessment.

Background

THE IMPORTANCE OF INCLUSIVE FORMAL REMITTANCE CHANNELS IN BANGLADESH

Remittances are crucial to the socio-economic development of recipient countries such as Bangladesh. In low-and middle-income countries, migrants' remittance inflows account for a total of \$540 billion or an average of 1.75 percent of their total gross domestic product (GDP) and up to 40 percent of households' income.¹⁴ In Bangladesh alone, remittance inflows represented about \$21 billion or 5.1 percent of the country's GDP in 2021-22, underscoring the importance of remittance inflows on the country's economy.¹⁵

Formal digital financial services tailored to the physical and financial needs of migrants can positively affect the lives of migrants and their families in developing countries. Globally, remittances are a crucial source of funds for migrants' families. According to surveys by UNCDF with approximately 3,000 migrants (and family members), more than 90 percent of remittance flows are used for essential household expenditures, including food, medical, housing, and education. Additionally, households in rural areas receive over 50 percent of remittances and rely on these remittances for improved livelihoods and increased resilience.¹⁶ Hence, providing affordable and accessible remittance channels to underserved population segments presents a significant market opportunity. In many developing countries, receiving remittances may be the only form of access to formal financial services for low-income recipients,¹⁷ indicating the potential of formal digital remittance services in driving financial inclusion for the underserved segments.

Inclusive innovation strategies for migrant remittances and financial services lead to several positive business outcomes for RSPs. These include the following:

- **Accessing untapped customer segments such as women.** Inclusive innovation could significantly enhance the organization's customer base's diversity and help it scale. Currently, almost half of the 281 million migrants worldwide are women,¹⁸ and the percentage of income remitted for women migrants tends to be higher than for migrants who are men.¹⁹ Yet, many remain unserved or underserved, with limited access to digital channels and higher transfer fees.²⁰ Access to affordable remittances for women offers a significant business opportunity for RSPs around the globe.
- **Unlocking cross-selling opportunities with ancillary services:** Strengthening access to formal remittances for underserved segments represents an attractive cross-selling opportunity for RSPs to onboard customers through formal remittance products to offer essential banking services such as savings, credit, insurance, pension and other financial products. These opportunities exist in Bangladesh, given current access to formal savings (9 percent for men and 6 percent for women) and formal borrowing (17 percent for men and 16 percent for women).²¹

However, not all remittance user groups have adopted formal remittance products due to customer empowerment constraints linked to cost, digital literacy, and trust. Estimates suggest that 22-40 percent of remittances were still received through informal channels in Bangladesh before the COVID-19

¹⁴ (Knomad, 2020)

¹⁵ Bangladesh Bank Statistics, 2021-22

¹⁶ (IFAD, 2021)

¹⁷ (ACP-EU Migration Action, 2017)

¹⁸ (UNDESA, 2020)

¹⁹ (UN Women, 2022)

²⁰ (UN Women, 2022)

²¹ (World Bank, 2022)

pandemic.^{22,23} These channels are generally associated with higher levels of financial and non-financial risks, including vulnerability to financial terrorism, money laundering and lack of access to legal recourse. In addition, they also restrict migrants' access to other financial services (savings, credit, insurance, pension etc.) that contribute to their economic resilience.

UNCDF aims to support RSPs to enhance their inclusive innovation strategies to foster more inclusive digital financial markets. It envisions a situation where remittances and other financial services are more accessible to migrants and their families, thus enhancing their financial well-being and resilience.

OVERVIEW OF THE REMITTANCE SECTOR IN BANGLADESH

Emigration and remittance

With 7.4 million emigrants, Bangladesh has the highest number of emigrants among the four focus countries of this UNCDF's initial study,²⁴ despite slow annual growth of 1.6 percent.²⁵ Only 33 percent of emigrants from Bangladesh are women²⁶, significantly lower than the South Asia average of 49 percent. India, Saudi Arabia and the United Arab Emirates (UAE) are the preferred destinations for Bangladeshi emigrants, with a larger percentage of men migrants preferring Saudi Arabia and the UAE (Figure 2).²⁷

²²

²³ Survey on Investment from Remittances, Bangladesh Bureau of Statistics, 2016

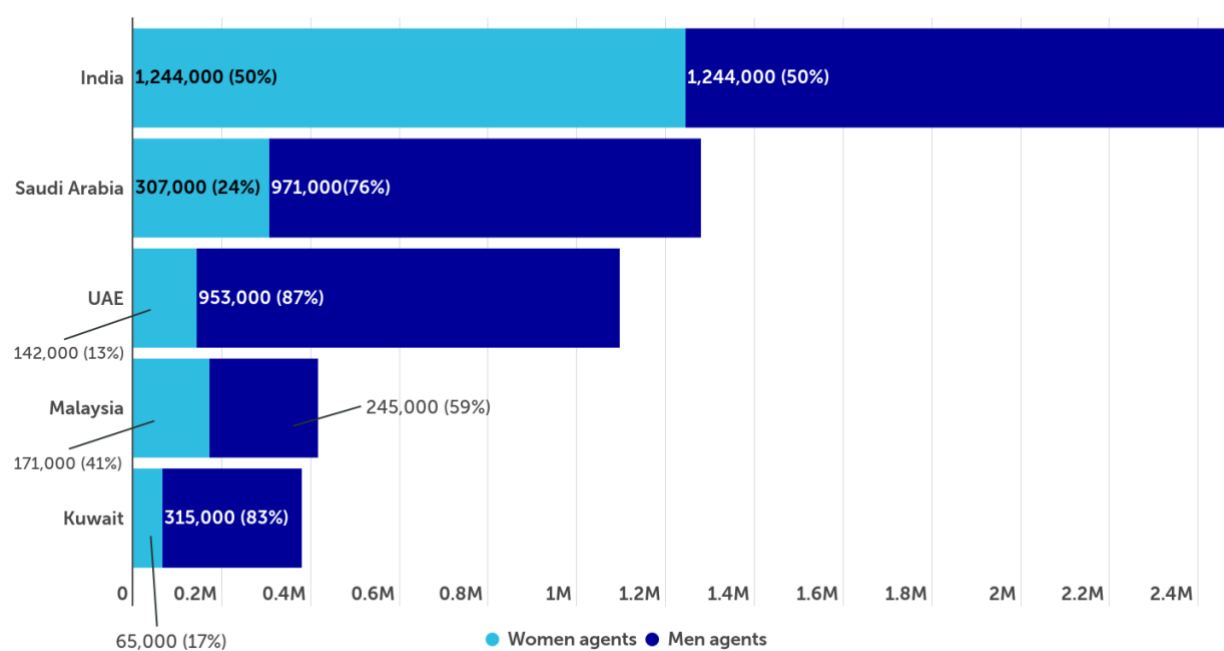
²⁴ The four focus countries include Bangladesh, Ethiopia, Nepal, and Senegal

²⁵ (UNDESA, 2020)

²⁶ (UNDESA, 2020)

²⁷ (UNDESA, 2020)

Figure 2 Top 5 destinations for Bangladesh's emigrant population, 2020 (by gender, in 000)



As a large remittance-receiving country, Bangladesh registered a significant increase in inflowing remittances during the COVID-19 pandemic. While remittance inflows had been steadily increasing in Bangladesh (6.0 percent per year) from 2010 to 2019,²⁸ they grew by almost 17 percent in 2020 at the start of the pandemic, countering a global trend where remittances to low- and middle-income countries fell by 1.6 percent during the same period.²⁹ This increase is likely driven by several factors, including a transition from informal to formal remittance channels due to restricted movement, natural reasons such as floods, conversion of Hajj savings to remittances, and incentives provided by the Bangladesh government to bolster remittance inflows.^{30,31}

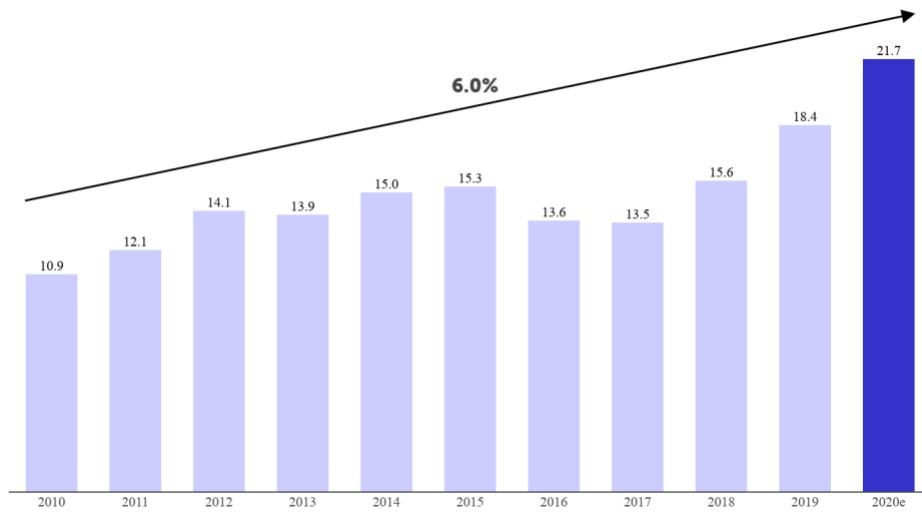
²⁸ (Knomad, 2020)

²⁹ (World Bank, 2021)

³⁰ Resilience: COVID-19 crisis through a migration lens”, Migration and Development Brief No. 34 (Washington, D.C., KNOMAD-World Bank, 2021)

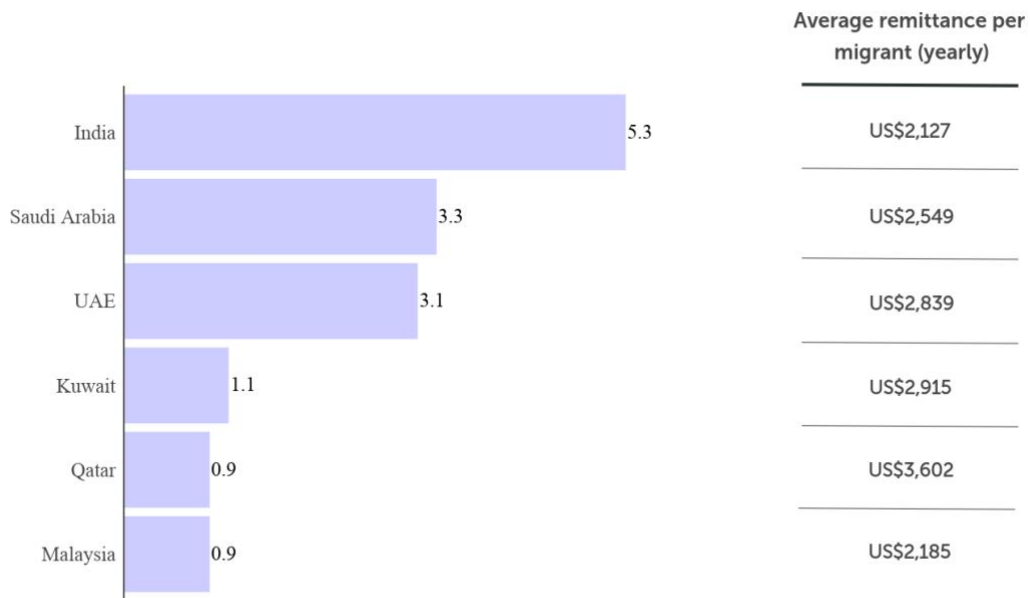
³¹ The Government of Bangladesh launched an initiative to provide a 2 percent incentive on money sent by expatriate Bangladeshis during the COVID-19 pandemic. The incentive later has been increased to 2.5 percent.

Figure 3: Remittance inflow to Bangladesh, 2010-2020 (in billion US\$)



Saudi Arabia and the UAE make up 30 percent of the overall remittance volume.³² Bangladeshi migrants to the Gulf Cooperation Council (GCC) countries also remit significantly higher amounts than those in Malaysia, one of the focus corridors of analysis for this study. Figure 4 shows the top five remittance inflow destinations of Bangladeshi migrants by their average annual remittance amounts.

Figure 4 Remittance Inflow (Bangladesh) – Top five destinations, 2020 (in billion US\$)³³



³² (WorldBank, Remittance Bilateral Matrix, 2019)

³³ While international remittance sources such as the World Bank record remittance flows between India and Bangladesh, these are not recognised by the Bangladesh Bank

The growth of remittance inflows (6 percent per year)³⁴ has outpaced the growth of emigration (1.6 percent per year),³⁵ spurred by the influence of cross-border digital payments and favourable government policies. Investments in digital infrastructure have been a priority for the government since the launch of Digital Bangladesh (2010), which has driven the uptake of digital payments further accelerated by the COVID-19 pandemic. One in five transactions is digital in Bangladesh, and the monthly Mobile Financial Services (MFS) transactions doubled between 2016 and 2020.³⁶ Policy and regulatory interventions have also supported Bangladesh's remittance market, as reflected in the government's 2 percent remittance incentive scheme during the COVID-19 crisis. Under the scheme, for every formal remittance sent by a Bangladeshi national up to a limit of Bangladeshi taka (BDT) 150,000 (\$1,770), the government would contribute another 2.5 percent to the transaction.³⁷ This incentive was further increased to 2.5 percent in 2022.

FORMAL REMITTANCE VALUE CHAIN: OVERVIEW, DYNAMICS, AND KEY TRENDS

Overall landscape

Bangladesh's remittance market is traditionally bank-led, but recent regulatory shifts have led to higher penetration in digital remittance services, although gender gaps persist. Until 2021, only banks with corresponding exchange houses were allowed to process inflowing remittances. However, in February 2021, Bangladesh Bank also permitted MFS service providers to receive remittances in partnership with banks. These recent regulatory shifts allow remittances to be received through mobile wallets routed through the corresponding banks. In total, 26 MFIs, branches of the Post Office, and Singer outlets (a large electronics and domestic appliance retail chain in the country) are authorized to distribute inflowing remittances.³⁸ While the two leading mobile wallets are bKash (BRAC Bank subsidiary having a market share of 75 percent)³⁹ and Rocket (by Dutch Bangla Bank having a market share of between 10 and 12 percent), other players are emerging locally, including U-Cash/UPay (by UCB Bank), mCash (by Islami Bank), and Nagad (by Bangladesh post). Overall, digital remittances (i.e., remittances received in bank accounts, mobile banking and wallets) have seen a sharp increase in usage in recent years, with the share of digital remittances rising from 11 percent in 2016 to 24 percent in 2021.⁴⁰ While this growth is significant, and there is considerable opportunity for further market penetration in digital remittances, women continue to experience unequal access to digital wallets, as shown by a 48 percent gender gap⁴¹ in mobile internet usage and a 23 percent gender gap in mobile phone ownership in Bangladesh.⁴²

In rural regions, almost 70 percent of remittances are received through agent banking accounts, and 50 percent of all remittances are collected at cash pickup points. Thirty banks have established a network of 19,737 agent banking locations across the country as of June 2022, with 86 percent located in rural regions. Processing inflowing remittances through these agent banking locations has been increasing 15 percent every quarter, more than 90 percent of which is in rural Bangladesh.⁴³ The number of cash pickup points has also drastically increased from 15,928 in 2012 to 111,664 in 2019.⁴⁴ While banks have significant market shares in these locations, 34 percent of the market share is held by three companies: Xpress Money (21

³⁴ (Knomad, 2020)

³⁵ (UNDESA, 2020)

³⁶ (Better Than Cash Alliance, 2022)

³⁷ (Noor, What's next for Bangladesh's fintech innovation?, 2021)

³⁸

³⁹ (The Financial Express, 2020)

⁴⁰ (Better Than Cash Alliance, 2022)

⁴¹ (GSMA, The Mobile Gender Gap Report, 2022)

⁴² (GSMA, The Mobile Gender Gap Report, 2022)

⁴³ Quarterly Report on Agent Banking; April-June 2022, Bangladesh Bank

⁴⁴ (IOM, 2020)

percent), Western Union (10 percent) and Transfast (3 percent).⁴⁵ Together, Xpress Money, Western Union, and Transfast operate nearly 38,000 cash pickup points in Bangladesh.⁴⁶

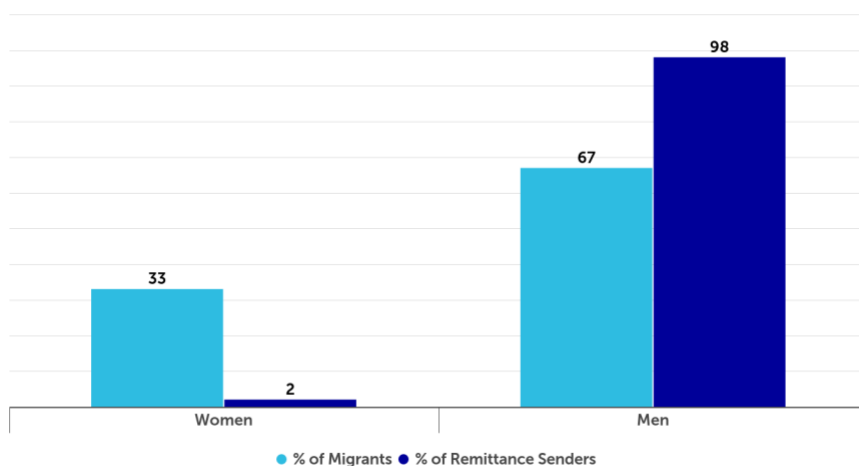
Pricing

The costs associated with sending money to Bangladesh are relatively low compared to other countries in the region. The average transaction cost for sending money to Bangladesh is about 2.8 percent of the principal amount (for \$200), significantly lower than the world average (6.0 percent) and slightly lower than the South-Asian average (4.1 percent).⁴⁷ However, despite the seemingly low costs, the International Organisation for Migration (IOM) studies⁴⁸ cite that sending money to Bangladesh is expensive given a migrant’s average income. On average, remittance cost represents almost 2 percent of a Bangladeshi migrant’s monthly income.

Gendered patterns: overview, dynamic and key trends

Despite being significantly lower in number compared to their counterparts, Bangladeshi women migrants tend to remit higher amounts than their male counterparts. In 2009, women were more likely to migrate to be with their families, but data from 2019 indicate that migration now provides them with an opportunity to participate economically.⁴⁹ However, women still comprise a small proportion of remittance senders for Bangladesh (i.e., only 2.1 percent of remittance senders in 2019),⁵⁰ despite representing 33 percent of Bangladeshi migrants in the same year.⁵¹

Figure 5 Gender analysis of migrants and remittance senders – Bangladesh, 2019



There are opportunities for digital remittance services to incorporate robust gender-smart approaches to product development, especially on the receiving side, to help accelerate gender participation. Studies by the IOM show that 65 percent of heads of households receiving international remittances are women.⁵² Yet, access to digital remittances is likely low, given Bangladesh's substantial gender gap in mobile internet usage

⁴⁵ (IOM, 2020)

⁴⁶ (IOM, 2020)

⁴⁷ (World Bank, 2022)

⁴⁸ (IOM, 2020)

⁴⁹ (IOM, 2020)

⁵⁰ (IOM, 2020)

⁵¹ (UNDESA, International Migrant Stock, 2019)

⁵² (IOM, 2020)

(48 percent gap).⁵³ In addition, labour force participation for women heading households is also low, with only 1.2 percent of these women being formally employed.⁵⁴

Gender-specific interventions to address imbalances in mobile and internet access could unlock significant advantages, leading to higher penetration of digital financial services for women customers. Such targeted interventions could reduce travel time and the cost for women, thereby increasing the accessibility and convenience of remittance services. Significant efforts are likely required to address some of these imbalances, as current mobile products in the market do not yet appear to meet the needs of women, who report facing additional social biases and cultural obstacles because of their gender, thus impeding higher uptake.⁵⁵

INFORMAL REMITTANCE VALUE CHAIN: OVERVIEW, DYNAMICS, AND KEY TRENDS

Overall landscape

Before the COVID-19 pandemic, an estimated 22-40 percent of remittances received in Bangladesh were informal.^{56,57} Stakeholder consultations indicate that the value proposition of informal channels is likely linked to their ease of access, pricing consideration, and a lack of awareness of the benefits of formal channels. In addition, the lower usage of informal channels is correlated with the availability of formal banking networks for migrant families. A study in 2021 found that a 10 percent increase in the availability of such banking network channels could reduce the use of Hundi channels⁵⁸ by 2.3 percent.⁵⁹

Pricing

One possible incentive for using informal channels is their price advantage on foreign exchange rates.⁶⁰ As COVID-19 movement restrictions ease, the prevalence of informal channels has resurfaced in corridors terminating in Bangladesh,⁶¹ as demonstrated in the next section of this report. This trend could indicate that the shift from informal to formal channels during the pandemic may not have been permanent. Such shifts could be attributed to the Bangladeshi migrants' sensitivity to foreign exchange rates between the destination country's currency (e.g., United Arab Emirates Dirham (AED), Malaysian Ringgit (MYR) and BDT). Consultations with stakeholders and MTOs indicate that informal channels typically offer a better exchange rate than formal sources (between 2-2.5 BDT/US\$), frequently offsetting a lower transaction cost and expensive fiscal incentives such as cashback.

⁵³ (GSMA, The Mobile Gender Gap Report, 2022)

⁵⁴ (Bangladesh Bank, 2022)

⁵⁵ (World Bank, 2018)

⁵⁶ (IOM; Colombo Process; SDC, 2019)

⁵⁷ Survey on Investment from Remittances, Bangladesh Bureau of Statistics, 2016

⁵⁸ Hundi refers to a network of informal remittance channels prevalent in South Asia in which local agents disperse money or goods of behalf of the remittance sender to their families

⁵⁹ (Uddin, Ichihashi, & Barua, 2021)

⁶⁰ UNCDF Stakeholder Interviews, 2022

⁶¹ UNCDF Stakeholder Interviews, 2022

OVERVIEW OF THE UAE-BANGLADESH AND MALAYSIA-BANGLADESH CORRIDORS

UAE-BANGLADESH

Demographics of migrants

The UAE is one of the major destinations for migrants from Bangladesh, with many of them being less- or semi-skilled. The UAE has approximately 15 percent of all Bangladeshi migrants (1.1 million migrants), 13 percent of which are women migrants.⁶² While segmented migrant data according to their skill levels are currently unavailable, Bureau of Manpower, Employment, and Training (BMET) data indicate that over 49 percent of all overseas employment for Bangladeshi migrants in 2019 can be classified as less-skilled or semi-skilled, with stakeholder consultations suggesting that a large percentage of them migrate to the UAE.⁶³

Top RSPs and products mapping

Exchange houses and global MTOs own a considerable proportion of the UAE-Bangladesh remittance market. World Remit, TeleMoney, Transfast and UAE Exchange are some of the leading companies in the corridor handling most of the money transfers between the UAE and Bangladesh.⁶⁴ They partner with various financial banking and non-banking entities (such as foreign exchange bureaux). They are responsible for pay-outs to migrant families in Bangladesh, with banking entities disbursing 90 percent of overall remittances received in Bangladesh.⁶⁵ The simple average cost of sending remittances in this corridor is 3.4 percent of the sent amount (for \$200), higher than the average cost of sending remittances to Bangladesh (2.8 percent).⁶⁶

MALAYSIA-BANGLADESH CORRIDOR

Demographics of migrants

Malaysia is a popular destination for Bangladeshi migrants and has 6 percent of all migrants from Bangladesh.⁶⁷ The gender divide among migrants in Malaysia is substantially more balanced than in other GCC countries, with women accounting for 41 percent of all Bangladeshi migrants in Malaysia.⁶⁸ Estimates by the Ministry of Human Resources (MOHR) in Malaysia show that the majority of Bangladeshi migrant workers in Malaysia were employed in manufacturing (38 percent) and the construction industry (36 percent).⁶⁹ Malaysia had suspended the hiring of migrant workers from Bangladesh in 2018, but in 2021 signed a memorandum of understanding (MoU) with the Government of Bangladesh to recruit more migrant workers, owing to acute labour shortages.⁷⁰ The MoU is effective for five years until December 2026 and aims to clearly outline the responsibilities of the relevant governments, employees, employers and employment agents. There is a concern, however, over the increasing cost of migration, over and above the government-mandated maximum cost, which may hinder the rapid growth of migration to Malaysia.⁷¹

Top RSPs and products mapping

⁶² UNDESA, 2020

⁶³ UNCDF Stakeholder Interviews, 2022

⁶⁴ (IOM, 2020)

⁶⁵ (IOM, 2020)

⁶⁶ (World Bank, 2022)

⁶⁷ (UNDESA, 2020)

⁶⁸ (UNDESA, 2020)

⁶⁹ (Wahab, 2020)

⁷⁰ (Benar News, 2021)

⁷¹ News Article: High cost may endanger worker migration to Malaysia again, New Age Opinion, August, 2022

Traditional global MTOs (e.g., Western Union, WorldRemit) and local RSPs offering mobile wallets (e.g., Merchantrade, ValYou) are the major remittance players in the Malaysia-Bangladesh corridor. Digital solutions have helped drive the cost of sending remittances (2.4 percent of the sent amount for \$200) to be lower than the worldwide average cost of sending remittances to Bangladesh (2.8 percent).⁷² In 2021, wallet-to-wallet remittance channels were also introduced to the Malaysia-Bangladesh corridor, as Ripple⁷³ signed a deal with Malaysia's Mobile Money International Sdn Bhd (MMI) and bKash from Bangladesh.⁷⁴

⁷² (World Bank, 2022)

⁷³ Ripple is a block-chain based real time gross settlement system and digital payment network

⁷⁴ (NASDAQ, 2021)

Inclusive Innovation in the Remittance Sector in Bangladesh

This section aims to analyze the level of inclusive innovation within the Bangladesh remittances market at the following three levels: product (remittance products), institution (RSPs as institutions) and ecosystem (enabling remittance ecosystem). This assessment is informed by robust secondary research and interviews with key stakeholders in the Bangladesh remittance market. The assessment concludes with a summary view of inclusive innovation within the market, flowing directly from evaluating inclusive innovation across the three levels of product, institution, and ecosystem.

INCLUSIVE INNOVATION LANDSCAPE ASSESSMENT AT THE PRODUCT LEVEL

This section investigates the level of innovation in remittance products in the Bangladesh market, focusing on the corridors between UAE-Bangladesh and Malaysia-Bangladesh. It also assesses how products stimulate or deter access to formal remittances for migrants and their families back in their country of origin.

Product offering

In Bangladesh, the flow of remittances is typically through three mediums: cash, bank deposits, and wallets, with early signs of preference for the latter two during the pandemic. Most banks in Bangladesh use physical and digital offerings through agent networks and physical interfaces for cash interactions alongside mobile banking solutions. Since the COVID-19 pandemic restricted mobility, many banking players have further innovated their offerings and implemented digital remittance solutions. Detailed transaction data analytics by UNCDF with a leading bank in Bangladesh indicate that while approximately two-thirds of the remittances were cash-based before the pandemic, over two-thirds of the remittances since 2020 have been received in either bank accounts or mobile wallets.⁷⁵

Product technology, user-centricity, pricing and bundling all influence uptake by migrants. These drivers are outlined below.

Product technology

Among the digital product offerings, stakeholder conversations suggest that bank transfers are used much more evenly throughout the country than mobile money wallets. This trend could be attributed to two factors. Firstly, banks have begun to expand their services, with prominent market players increasing the number of agent banking networks rapidly in the last five years. Between June 2019 and June 2022, agent banking networks increased by 127 percent,⁷⁶ of which 86 percent were in rural areas.⁷⁷ Inflowing remittance processing has been steadily increasing through these agent banking locations at 15 percent every quarter for the last three years.⁷⁸ Secondly, while 56 percent of the mobile wallets are in rural areas,⁷⁹ stakeholder interviews suggest that wallet-based inflowing remittances tend to be more concentrated in metropolitan and urban areas, with rural populations preferring to cash out their remittances.

In contrast, on the sending side, transferring remittances through banks can come at a high cost to migrants due to the market's lack of digital product offerings. GCC countries continue to be the major destination for migrant remittance senders, contributing to 53 percent of remittances reaching

⁷⁵ Shifting from cash to digital remittances during the pandemic: A case study of BRAC Bank in Bangladesh; UNCDF; 2022

⁷⁶ (Financial Inclusion Department - Bangladesh Bank, 2022)

⁷⁷ UNCDF Stakeholder Interviews, 2022

⁷⁸ Quarterly Report on Agent Banking, Bangladesh bank (from 2019-2022)

⁷⁹ Bangladesh Bank Statistics, 2022

Bangladesh.⁸⁰ Sending formal remittances from these countries typically involves bank transfers. Conducting these transfers is time-consuming and may require between four and six hours of the migrant's day, usually necessitating a day off from work. This translates to a high opportunity cost of wages earned for migrants.

Compared to other products, digital wallets remain underused and for smaller transaction sizes, likely due to their relatively higher transaction costs. Since wallet transfers are instantaneous and involve no lag, stakeholders interviewed for the assessment believe these transfers are used to respond to emergency needs rather than for regular remittance transactions. Data from a leading bank shows that the average sent amount via cash is \$594 and \$719 via bank accounts. However, the average transfer amount via wallets is only \$102.⁸¹ This discrepancy might be linked to digital wallet providers charging 1.5-2 percent of the sent amount during cash-out, which is higher than the average price of formal remittances in some corridors terminating in Bangladesh.⁸² Some wallet players, such as bKash have reduced the cash-out fee to 1.5 percent, likely to drive greater uptake of wallets for remittance services. In addition, COVID-19 has accelerated the penetration of mobile wallets in Bangladesh, with over 12 million wallets being opened in the first six months of the Pandemic (between March 2020 and September 2020) alone.⁸³ In the same period, inflowing remittances through mobile wallets increased by more than two-fold.⁸⁴ Although inflowing remittances using mobile wallets have surged by more than seven times in the previous two years, there is a possibility to capture a higher percentage of inflowing remittances if cash-out expenses were reduced.⁸⁵

Women's low usage of digital finance is influenced by several factors, including their experiences with account openings and poor in-person support. Women's two main modes of digital money transfers are self-initiated and agent-assisted, i.e., over-the-counter (OTC).⁸⁶ While the agent network is pivotal in driving broad uptake, it is accompanied by challenges for women, including digital literacy, discomfort with agents who are men and socio-cultural biases.

Overall, many product-related issues women users face with MFS relate to poor awareness of the existence of these products, compounded by affordability issues and low technical literacy.⁸⁷ Many women customers are unaware of the range of services and features available in products, as marketing efforts by providers are often only focused on existing MFS customers. In terms of affordability, many MFS users who use money transfer services perceive the charges to be higher than those of banks, with stakeholders reporting that this perception is more prevalent in rural areas. While accurate data does not yet exist, these higher charges could likely be attributed to rural agents charging a premium for helping consumers conduct transactions. Limited technical literacy among women in rural areas is amplifying this dependence on agents.⁸⁸

Product user-friendliness for recipients

Several popular wallet applications are available in Bengali and include a voiceover function, resulting in higher usage of digital remittances. The latest available census data in 2011 indicate that 98 percent of the population speaks Bengali.⁸⁹ As shown below in [Figure 6](#), these applications offer users the option to choose between English and Bengali, making essential services and onboarding available in both languages for customers to fully understand the services offered before conducting transactions and financial activities.

⁸⁰ (Bangladesh Bank, 2022)

⁸¹ Shifting from cash to digital remittances during the pandemic: A case study of BRAC Bank in Bangladesh; UNCDF; 2022

⁸² (Tech Observer, 2021)

⁸³ Monthly data on MFS, Bangladesh Bank

⁸⁴ Monthly data on MFS, Bangladesh Bank

⁸⁵ (IOM Asia Pacific Regional Data Hub, 2021)

⁸⁶ (World Bank, 2018)

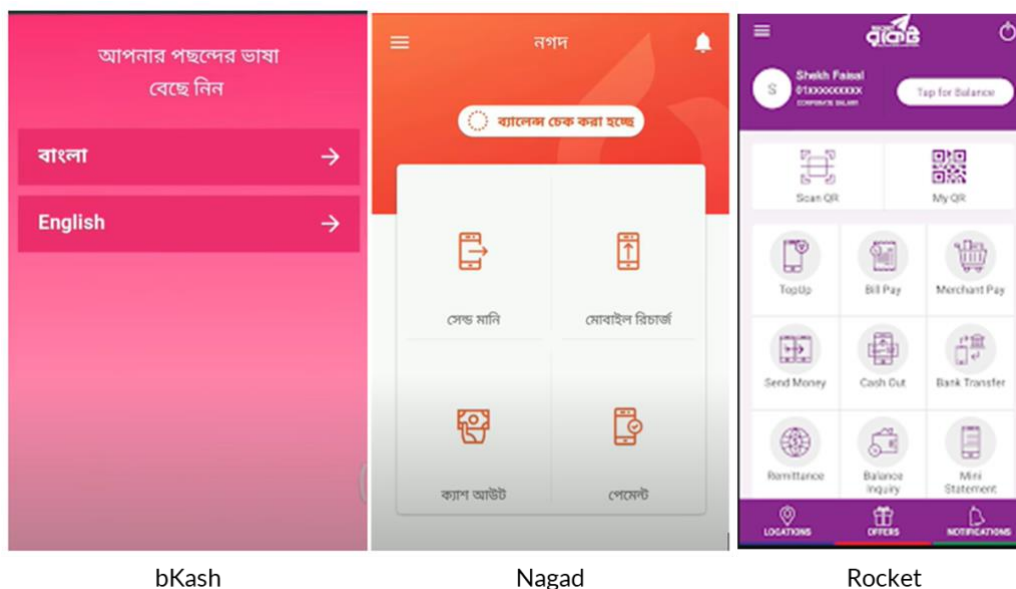
⁸⁷ (World Bank, 2018)

⁸⁸ (World Bank, 2018)

⁸⁹ (Faquire, 2010)

Some services also have a voiceover function that vocally states the process or requisite information at each stage, furthering access to customers with low Bengali literacy levels.

Figure 6 Digital offerings are available in Bengali



Other digital applications could follow this lead to increase the uptake of digital remittance products, especially among rural populations and women. Digital product menus and instructions exclusively in English typically lead to the marginalized segments heavily relying on agent networks. Consequently, such reliance can lead to more significant risks associated with agent-assisted transactions (e.g., transaction errors and agent fraud). In addition, poor understanding of options available in digital menus may cause potential customers to shy away from using the product for fear of misunderstanding their services and accidentally losing money.

Product pricing

The cost of sending remittances to Bangladesh (2.8 percent on average for \$200 as of Q2 2022) is marginally lower than other South Asian countries and much lower than the global average.⁹⁰ These transaction costs vary by channel and corridor. The Kuwait-Bangladesh corridor is subject to the lowest average remittance cost (1.33 percent of the sent amount for \$200) among all the major corridors terminating in Bangladesh.⁹¹

Although competitive, pricing still presents affordability challenges to users. While acknowledging the convenience of MFS, users also report that the charges levied are high. Even among non-users, there is a widespread perception that the cost of MFS is too high compared to bank charges. This is likely because users often have to pay cash-out fees from MFS (recipients in the case of wallet-based inflowing remittances because the inflowing remittance is free, but cash-out from wallets is charged at 1.5 to 2 percent).

Some RSPs are currently exploring end-to-end⁹² remittance services, which presents a significant opportunity for RSPs, as greater control over the overall pricing of services can likely lead to greater appetites for pricing innovations. Expanding their presence and offerings on both sides of remittance corridors will offer RSPs greater predictability and control over their revenues and may also increase their appetite for greater investments in product technology and innovation. End-to-end products will also enable innovative cross-subsidization of services for underserved segments, enhancing inclusive innovation.

⁹⁰ (World Bank, 2022)

⁹¹ (World Bank, 2022)

⁹² Refers to RSPs that have presence on both sending and receiving sides

Product bundling

The provision of remittance-linked services is rising in Bangladesh, particularly with savings products, with attempts to increase uptake. Based on stakeholder consultations, accumulating savings is generally not a major financial priority or behaviour trait of migrants and their families; low daily wages and increasing living costs accentuate this trend. Often, families use remittances to meet daily living expenses, with very little being saved for the first 2-3 years of the migration cycle.⁹³ In response, some leading banks have begun offering deposit products and features with higher than usual interest rates, such as fixed deposit (FD) or equated monthly instalment (EMI) products with special interest rates, hoping to incentivize savings behaviour.

Despite low behavioural uptake, the need for such savings products is high in Bangladesh due to the high upfront investments for migrants to migrate. The cost of migrating from Bangladesh is among the highest in South Asia, at \$4,600.⁹⁴ According to the latest Bangladesh Bureau of Statistics report, it takes migrants around 17 months to recoup their money after acquiring a job.⁹⁵ Typically, most Bangladeshi migrants resort to loans or mortgages to finance migration. Thus, the first 2-3 years of wages earned are focused on paying off the debts from these borrowings. Incentivizing savings from the outset of migration, or even before, could help further accelerate and increase the savings levels of migrants during their earning years.⁹⁶

In Bangladesh, loan products are a key area of innovation within bundled service offerings. The country, described in stakeholder interviews as the “land of micro, small-medium enterprise (SME) loans”, forms a conducive environment for providing innovative, socially focused loan products. Probashi Kolyan Bank, a public sector bank for migrants governed by the Ministry of Expatriate Welfare and Overseas Employment (MoEW&OE) and the public sector-run Agrani Bank, has specialized loan products for the outgoing migrants. Bank Asia, a private bank, also offers loan products to migrants without the need for collateral for a certain period. BRAC’s MFI also offers remittance/migration-focused loans with delayed repayment timelines after the migrant has settled abroad and credit assessments based on the migrant’s formal employment confirmed. Various leading remittance players are also contemplating launching digital nano loans based on a user’s wallet usage. Still, more than 85 percent of the outgoing migrants rely on credit taken from family, friends and moneylenders to manage the cost of migration in the absence of formal finance.⁹⁷

Bundled services for insurance are low in Bangladesh, both in their offerings and uptake. Bangladesh is one of the unique countries where the government has mandated insurance for outgoing migrants through the Wage Earners Welfare Board (WEWB). In the insurance scheme (*Probasi Kormi Bima*), instituted in 2019, WEWB has partnered with the public sector life insurer Jiban Bima Corporation (JBC) to implement the policy. According to the Annual reports of the WEWB, in the first two years of operation (2019-20 and 2020-21), 467,915 migrant workers have been covered through the policy, with a cumulative premium collection of BDT335.41 million (\$3.7 million). Almost 22 percent of these covered migrants were women. [Reports](#) also suggest that till June 2022, close to 1.37 million migrant workers are covered through the scheme, of which 167 families have received claims. In the [news from December 2021](#), it is suggested that the claims paid till December are BDT12.2 million compared to the premium receipt of BDT402.4 million (\$4.4 million) till then.

Low financial product uptake is further exacerbated when a gender lens is applied. A 2019 study of 10,000 migrant households revealed financial product ownership among remittance recipients is relatively low, with most household heads owning one or two products, typically checking accounts and loans, and only 40 percent of recipients reported owning savings accounts. This finding has gendered dimensions, as women recipients appear more financially vulnerable than their male counterparts due to their lower financial

⁹³ UNCDF Stakeholder Interviews, 2022

⁹⁴ (ILO and Bangladesh Bureau of Statistics, 2021)

⁹⁵ (ILO and Bangladesh Bureau of Statistics, 2021)

⁹⁶ Stakeholder Interviews

⁹⁷ (ILO and Bangladesh Bureau of Statistics, 2021)

product ownership. Women often do not have savings or savings accounts in their names and report having lower financial literacy and education levels.⁹⁸

Delivery of services

Agent network

The agent network plays a key role in expanding financial services and building consumer trust, especially in the rural regions of Bangladesh. A relatively recent model introduced in Bangladesh in 2017, the expanding agent network of several large players is extensive, enabling them to reach recipients in rural and remote areas. As of June 2022, 86 percent of agents' outlets and accounts opened through agent banking are in rural areas.⁹⁹ An over 10 percent quarterly growth in deposit, lending and inflowing remittances through agent banking, outpacing the growth of agent outlets, demonstrates the high degree of trust amongst customers with their agents, as indicated in the stakeholder interviews.^{100,101} Utilizing agents can also be more cost-effective for the user, as there is currently no charge for cash-out at these points, compared to mobile wallets. However, there is a significant gender gap observed in agent banking operations. While the gender gap in deposits is 23.1 percent, the gap for lending is as high as 70.3 percent. The growth of deposits and lending to women customers also falls significantly behind that of their male counterparts in agent banking in Bangladesh.¹⁰²

The agent's gender drives a key factor in customer experience with agents. A 2020 World Bank study in the Democratic Republic of Congo found that customers prefer transacting with agents of their own gender, and that they transact in higher amounts with agents of the same gender.¹⁰³ These findings are reaffirmed in a Bangladesh-specific study that segmented the MFS market's women users into four distinct archetypes and noted the financial product preference of each one. Two archetypes were highly agent-dependent, namely informal sector workers and homemakers. These customer segments are wholly dependent on and highly trusting of agents to support transactions, largely due to low digital literacy, language barriers, or familiarity with digital solutions. They also clearly prefer women agents, believing they would behave better and provide a better service.¹⁰⁴

Preference for women agents by women customers has not yet influenced providers' decisions on agent composition. The 2020 World Bank study mentioned above in Bangladesh found that 97 percent of respondents had little choice but to visit agents who were men since less than 1 percent of all MFS agents were women.¹⁰⁵ Additionally, stakeholder consultations with leading RSPs reveal that the number of women agents currently employed is lower than needed, i.e., while 62 percent of customers are women, most agents are currently men.¹⁰⁶ However, RSPs recognize the need to address this imbalance and initiate projects and grants to identify solutions with support from donors such as the Bill and Melinda Gates Foundation (BMGF).¹⁰⁷

Despite the advantages of the agent network, studies have found risks and challenges associated with agent behaviour, such as fraud, some of which affect women. For example, users sometimes find agent knowledge or explanations of products insufficient, often because agents are interested in maintaining the user's dependence on them and have no incentive to build independence. There are also gendered challenges, with some agents treating women customers with condescension and bias. Reports also indicate instances of women facing harassment at the hands of agents or at agent outlets. In addition, customers

⁹⁸ (IOM, 2020)

⁹⁹ (Financial Inclusion Department - Bangladesh Bank, 2022)

¹⁰⁰ UNCDF Stakeholder Interviews, 2022

¹⁰¹ (Financial Inclusion Department - Bangladesh Bank, 2022)

¹⁰² (Financial Inclusion Department - Bangladesh Bank, 2022)

¹⁰³ (WorldBank, Does agent gender matter for women's financial inclusion?, 2020)

¹⁰⁴ (World Bank, 2018)

¹⁰⁵ (World Bank, 2018)

¹⁰⁶ UNCDF Stakeholder Interviews, 2022

¹⁰⁷ UNCDF Stakeholder interview, 2022

have also reported complaints of fraud relating to identification number (PIN) misuse, cash misappropriation, and other issues.¹⁰⁸ Finally, having a vast agent network does not necessarily translate to widespread customer support. This is because of customers being denied after-sales support (from closed agent outlets, connectivity problems, and liquidity issues), which is a potent challenge given the indirect costs associated with visiting the agent outlet.¹⁰⁹

After-sale support

After-sales support and general recourse in Bangladesh are robust. Still, there is a discrepancy in the types and quality of support mechanisms available in urban areas compared to rural regions. Most of the gaps in services offered are driven by the technological challenges customers face in rural areas, which is especially true for MFS, where the urban-rural divide is higher.¹¹⁰

In urban areas, there are two main modes of access to redressal mechanisms: the agent and the service provider. The agent outlet route to redress customer grievances is not seamless, with some users suggesting that agents seem to be unaware of recourse mechanisms in some cases or behave disrespectfully when presented with complaints.¹¹¹ The second option for customers is to contact the service provider directly. However, many consumers are not aware of this channel. Even when awareness exists, challenges are associated with navigating the interactive voice response (IVR) menu that precedes speaking with a representative. Usage of this channel is concentrated in urban and semi-urban areas, which is non-inclusive of rural customers who may also seek immediate support.¹¹² Rural customers often find these technological hurdles insurmountable and are left feeling like they have no access to recourse. For those who do, travelling to urban or semi-urban service points results in high costs.

Despite the availability of customer protection processes, a lack of awareness often leads to customers not utilizing these provisions. Users feel under-informed about recourse processes, especially in rural areas, causing some of them to write off losses or hesitate before escalating complaints. This reduces trust in formal remittance services for a financially vulnerable population. Hence MFS providers would benefit significantly from accessible, trustworthy grievance redressal mechanisms.¹¹³

Communication and marketing

Many leading players drive awareness of their products and services through various marketing channels. For instance, stakeholder consultations with a leading provider have highlighted two kinds of marketing efforts. These include grassroots-level campaigns aimed at driving uptake for the product via conversations with potential users and partnerships with the BMET to build knowledge about the migration and remittance process, as well as about the provider's primary remittance offering.¹¹⁴

Many key players produce inclusive content along different dimensions on social media and print advertisements. For instance, as shown below in Figure 8, marketing collaterals are typically in Bengali, cater to different age groups, and include both men and women in their visuals. Several RSPs have active social media presence with regular posting schedules, which offer similar advantages. Posts on social media platforms (i.e., Facebook, Twitter, Instagram) by digital MTOs and traditional RSPs are often in both English and Bengali. RSPs also leverage these platforms to respond to customer questions and grievances using the chat or the comments section.

¹⁰⁸ (World Bank, 2018)

¹⁰⁹ (World Bank, 2018)

¹¹⁰ (World Bank, 2018)

¹¹¹ (World Bank, 2018)

¹¹² (World Bank, 2018)

¹¹³ (World Bank, 2018)

¹¹⁴ UNCDF Stakeholder Interviews, 2022

Figure 7 Examples of marketing by RSPs



On the user side, a study of women users shows scope to increase targeted marketing efforts toward this subgroup using the channels that they trust. A World Bank study of MFS in Bangladesh¹¹⁵ revealed a strong correlation between a sharp focus on marketing and branding and market leadership and dominance. Many women customers reported that advertisements are an essential factor driving their behaviour regarding the use of MFS. Women in Bangladesh tend to place their trust in the experience broadcasted in television advertisements and consider television a reliable medium for disseminating information on MFS products and their benefits. The study also found that the uptake of new products (digital credit, recurring savings deposits) is limited to customers who already have MFS accounts despite marketing and communication efforts. These efforts do not reach customers who depend on agents to conduct transactions, many of them being women.¹¹⁶

Key takeaways on inclusive innovation at the product level



Product offering: In Bangladesh, digital bank transfers are the most popular technological offering due to their reach. Stakeholder interviews suggest that there is a possibility that migrants may tend to use only wallets for emergency remittance transfers, given the cash-out charges. However, their usage continues to grow steadily. Women face particular challenges while using MFS, such as insufficient product knowledge, affordability concerns, and low technical literacy.

Regarding product user-friendliness, many popular applications are available in Bengali, and some have a voiceover function, enabling inclusivity for those with low literacy.

¹¹⁵ (World Bank, 2018)

¹¹⁶ (World Bank, 2018)

Product pricing, while competitive, presents affordability challenges due to the perception of high cost on the customer side and low control over pricing by RSPs.

The provision of bundled services is slowly rising in Bangladesh, particularly with savings and loan products, despite low uptake on the customer side. This low uptake is exacerbated by gender, i.e., women recipients appear to be more financially vulnerable than men.



Delivery of services: Agents play a crucial role in expanding financial services and consumer trust in Bangladesh, with many banks placing full trust in their agents and utilising resources to grow their agent network. The MFS agent experience is gendered – a study in Bangladesh found that customers prefer to transact with agents of their own gender, transacting in higher volumes with these agents. However, there are also risks associated with the agent network, including fraud risk, insufficient product knowledge, and service denial.

There is a discrepancy in the availability of after-sales support, particularly between rural and urban areas. In urban areas, the two main modes of access to redress are through the agent and the service provider. Rural customers often find technological challenges insurmountable (including navigating the IVR menu).



Communication and marketing: Many leading players utilize channels such as grassroots campaigns, partnerships with government offices, and online marketing to drive uptake for products. On social media and print, most collateral is in Bengali and caters to different age groups. There is scope to improve communication with women users, who believe that television advertisements can improve awareness. Uptake is also limited to customers who already have MFS accounts, as advertising efforts sometimes do not reach those reliant on agents.

INCLUSIVE INNOVATION LANDSCAPE AT THE INSTITUTIONAL (RSP) LEVEL

This section investigates the level of innovation of RSPs in the Bangladesh market, focusing on those operating in the UAE-Bangladesh and Malaysia-Bangladesh corridors. It investigates RSPs' strategies and organizational capabilities to innovate inclusively.

Innovation strategy

Research & Development (R&D)

In Bangladesh, the innovation culture among RSPs appears to be driven by digital RSPs and MNOs, with most banks having more traditional outlooks. COVID-19 has accelerated new product innovations to a certain extent, and some digital RSPs have been nimble in responding to emerging customer needs. One example of such innovation is by bKash, which rolled out a new facility that enabled migrants to send remittances directly to non-bKash account holders and users, decreasing the reliance on cash during the height of the COVID-19 crisis. However, at an aggregate level, innovation in financial services remains low. Bangladesh was recently ranked 78 among 83 countries in the Global Fintech Index 2021 released by Findexable, a London-based global research and analytics firm, indicating significant opportunities for further improvement by financial institutions.¹¹⁷

RSPs have limited insights into customer needs on the sending side due to a lack of availability of targeted research. Banks in Bangladesh often collaborate with global MTOs/sending-side banks to process remittances and act as remittance disbursement partners (i.e., corresponding banks). In the stakeholder interviews, BRAC Bank, bKash, and Bank Asia have cited a limited understanding of the needs and aspirations

¹¹⁷ (The Business Standard, 2021)

of the migrants abroad as a critical barrier to innovation. The absence of these insights also acts as a hurdle for RSPs to set up remittance operations on the sending side. They have no control over the remittance price offered to migrants, and given their limited understanding of customer pain points, no targeted innovation activities are occurring to address such challenges.

Additionally, there is an opportunity to embed inclusion at the heart of institutional innovation for RSPs. Inclusion considerations often remain an afterthought in the R&D process for RSPs in Bangladesh. Given the gender and age divide for digital inclusion in Bangladesh, underserved segments represent a significant commercial opportunity for RSPs. RSPs such as BRAC Bank has started to tap into this opportunity, leveraging UNCDF's support to market products to women customers in rural areas.

Business/Pricing Model

The use of technological innovations in the remittance market in Bangladesh is reducing the cost of sending remittances for migrants and can be further expanded. For example, there was a recent decrease in the cost of sending remittances through postal networks when Bank Asia and the Bangladesh Post partnered with Inpay¹¹⁸ and payment networks Eurogiro¹¹⁹ to connect with other global postal organisations.¹²⁰ Another example is the country's first blockchain-enabled, direct wallet-to-wallet remittance solution introduced by bKash, which has partnered with Mobile Money International Sdn Bhd (MMI), a Malaysia-based mobile wallet company, and will be leveraging RippleNet, Ripple's global payments network, to process remittances.

Formal channels still struggle to compete with informal channels on the cost of sending remittances. This gap is arguably driven by the foreign exchange rate offered by informal channels, which is marginally better than the official rate (average difference of 2-2.5 BDT/US\$). Given the price sensitivity of Bangladeshi migrants,¹²¹ the price advantage contributes to the existence and popularity of informal channels. However, it is worth noting that informal remittances are an understudied area of research, with reasons for their drivers being largely anecdotal. This suggests the need for more in-depth studies that can more comprehensively examine the attitude and behaviour of migrants who adopt informal channels and accordingly create incentives and opportunities that can shift their preferences toward formal channels.

Organizational capabilities

Structure & processes

Despite a traditional approach to innovation in the remittance sector by banks, MFS and fintech companies are starting to pilot new digital products and processes, paving the way for innovation. Stakeholder consultations during this research have revealed that some banks had dedicated platforms to engage with technical experts and international partners to drive innovation in the remittance sector. Still, such capabilities appear to be limited to a few banks. Examples of innovation include RSPs collecting and analysing gender-disaggregated data as part of the product development process. In addition, banks such as BRAC Bank are utilizing their agent network to source customer preferences and needs, especially for women customers.¹²²

Increased representation of women in leadership positions in the financial service industry remains a challenge to inclusive innovation. A recent survey in 2019 by Inclusive Fintech 50 showed that only 9 percent of fintech companies in South Asia were women-led and, on average, were able to raise only one-third of

¹¹⁸ Inpay offers low-cost, fast and secure cross-border payment solutions as a cheaper alternative to SWIFT wire transfers

¹¹⁹ Eurogiro A/S is a global payments network and community connecting 60 postal organisations, postbanks, commercial banks and other financial service providers from more than 50 countries in all regions of the world.

¹²⁰ (Inpay, 2022)

¹²¹ UNCDF Stakeholder Interviews, 2022

¹²² UNCDF Stakeholder Interviews, 2022

the money raised by a male counterpart.¹²³ Similarly, while Bangladesh tops the list on women leadership in listed companies (all sectors), this figure remains at 6 percent.¹²⁴ Strong evidence suggests that women business owners are more likely to hire women staff and implement gender-inclusive policies,¹²⁵ with possible positive ramifications for inclusive innovation.

Financial capital

Stakeholder consultations revealed that targeted capital for innovation with a sharp inclusion focus could lead to stronger impact and business outcomes for RSPs in Bangladesh. For example, BRAC Bank has increased its base of women customers from 25-30 percent to 39 percent with targeted support and technical assistance support from development partners and a broader organizational level focus on inclusion.¹²⁶

Partnerships

A few RSPs in Bangladesh have demonstrated successful partnerships with global fintech companies to enhance organizational innovation capacity. BRAC Bank's partnership with RippleNet is a case in point. Global MTOs have partnered with banks and wallet providers in Bangladesh to offer pooled model products that allow migrant families to decide on remittance termination points. RSPs also expressed interest in piloting partnerships with blockchain-based technologies to enhance the speed and reliability of remittances. Such collaborations could be scaled further to enhance innovation practices for digital remittance services to be accessible to all underserved segments.

RSPs have partnered with the BMET to increase awareness of digital remittance offerings among migrants.¹²⁷ Global MTOs based in Bangladesh have dedicated personnel working with six to seven major BMETs in the country. They are based out of larger remittance hubs in Bangladesh (e.g., Dhaka, Cumilla and Tangail). Their activities include briefing and training sessions with migrants to share information about the migration process and remittance channels.

Key takeaways on inclusive innovation within RSPs



Innovation strategy: In Bangladesh, digital RSPs and MFS providers tend to have a more robust innovation culture, with the ecosystem falling behind in fintech innovations. While the receiving side is well researched, RSPs have limited visibility of their customers' challenges, aspirations, and needs on the sending side. Additionally, inclusion often remains an afterthought, and there is significant potential to embed inclusion principles at the heart of product design for remittance products and services in Bangladesh. Using technologies through bespoke partnerships can significantly reduce the cost of remittances, and a few successful collaborations have recently resulted in new services being introduced to the market.



Organizational capabilities: In Bangladesh, digital wallets and selected banks are leading the way in demonstrating a culture of innovation with their remittance products. Still, many others tend to be hierarchical and appear not to have an intentional focus on innovation or addressing inclusion issues. At an organizational level, the representation of women in leadership roles represents a significant opportunity to drive inclusive innovation within the organization.

¹²³ (Centre for Financial Inclusion, 2019)

¹²⁴ (The Daily Star, 2022)

¹²⁵ (Women's Forum for the Economy and Society, 2021)

¹²⁶ UNCDF Stakeholder Interviews, 2022

¹²⁷ UNCDF Stakeholder Interviews, 2022

While the volume of financial capital appears adequate, funders need to start linking the disbursement of capital toward initiatives that leverage inclusivity and business innovation to ensure that the growth of digital products does not further drive inequity in access to remittance and linked products and services. RSPs have partnered with local fintech and global MTOs to offer cutting-edge digital remittance products. They are also working with BMETs in Bangladesh to improve migrants' awareness of financial products and services.

INCLUSIVE INNOVATION LANDSCAPE ASSESSMENT AT THE ECOSYSTEM LEVEL

Beyond RSPs, other remittance stakeholders can also play a key role in fostering inclusive innovation practices in remittance products and services in Bangladesh. Key ecosystem-level bottlenecks that prevent this from being accelerated include the lack of an intentional gender focus in the design and development of programs and the limited provision of remittance services from a regulatory standpoint.

Innovation ecosystem

Bangladesh's venture capital ecosystem for fintech has seen substantial progress in the last five years. The current start-up ecosystem in Bangladesh has been commended as a model in a public-private partnership globally, as regulatory decisions have propelled the industry to target double-digit growth. Policy reforms to enable alternate investment instruments, such as venture capital funds, have catalyzed the market after regulatory approval by the Bangladesh Securities and Exchange Commission (BSEC) in 2015. A survey of over 100 start-up founders in Bangladesh in 2019 highlighted fintech as the most promising sector for entrepreneurship, with a high confidence level in the overall start-up ecosystem.¹²⁸ The current start-up ecosystem has seen an investment of over \$200 million over the past four years alone, and fintech has been one of the top three thematic areas for this investment.¹²⁹

Private sector innovations have enabled the remittance market to drive the penetration of digital remittances through increased speed and transparency of remittance payments. One such innovation is HomePay, which enables digital cross-border payments directly into any bank account or mobile wallet in Bangladesh using one application programming interface (API). The process relies on an electronic verification of sender and recipient using the official Bangladesh government database.¹³⁰ Another innovation includes the first blockchain-based cross-border remittance solution piloted in the Malaysia-Bangladesh corridor.¹³¹ These innovations help reduce remittance costs for the user and help increase the safety of the transaction while decreasing transfer times.

There is a significant opportunity to strengthen the ecosystem's focus on inclusion, especially related to gender. There is a significant gender gap in Bangladesh's digital payment access and usage. According to the World Findex Database 2021, only 20 percent of women had access to mobile money compared to 38 percent of men.¹³² Even in agent banking operations, more growth and access is witnessed in the case of men customers than women, widening the gender gap to 23 percent in case of deposit and to 70 percent in case of loans.¹³³ The gender gap in mobile ownership (23 percent) and mobile internet usage (48 percent) is

¹²⁸ (LightCastle Partners, 2020)

¹²⁹ (LightCastle Partners, 2020)

¹³⁰ (Noor, What's next for Bangladesh's fintech innovation?, 2021)

¹³¹ (Noor, What's next for Bangladesh's fintech innovation?, 2021)

¹³² (WorldBank, Global Findex Database, 2018)

¹³³ (Financial Inclusion Department - Bangladesh Bank, 2022)

also significantly higher, highlighting the probable reasons and a significant need to focus on women customers.¹³⁴

Regulatory landscape for innovation

When used well, having a national digital ID is a key driver of product innovation in the remittance ecosystem. The National Identity Card (NID), first introduced in 2006, is a compulsory photo identity document issued to anyone over 18 and was issued primarily for electoral procedures. In 2016, however, smart NIDs replaced NIDs, enabling the identity card with an embedded biometric microchip. Now, two out of every three adults in Bangladesh have a smart NID.¹³⁵ In January 2020, Bangladesh Bank, through its e-KYC guideline, allowed the smart NID to be used to open accounts and authenticate transactions within some stipulated boundaries. By allowing financial service providers to use digital IDs through regulatory reform, there is a good chance to improve e-KYC methodologies and bring underbanked and unbanked people into digital financial services. However, to date, there is limited use of the ID for e-KYC and other electronic verification for onboarding customers by banks or MFS providers.¹³⁶

The Bangladesh government's 2 percent cash incentive for remittances (later revised to 2.5 percent) during COVID-19 was pivotal in supporting the remittance ecosystem. Defying the 22 percent decline predicted by the World Bank,¹³⁷ inflowing remittances to Bangladesh for 2020 were a staggering 40.6 percent (18.6 percent increase in 2020) above the predicted decline. This increase was due to a combination of factors, including cancelling the pilgrimage to Mecca (hajj) and floods in July, significantly boosted by government incentives targeted at using formal channels and the disruption of informal channels caused by movement restrictions. This spillover resulted in bKash reporting a 150 percent increase in daily remittance volumes and internet banking customers rising to 2.74 million in June 2020 from 0.6 million in June 2019.¹³⁸ bKash's growth in customer base was also aided by a 1 percent cash bonus offered to the customer receiving remittances worth BDT10,000 or more through banking channels abroad. Mobile financial service users increased by more than 20 million between March 2019 and March 2020, with the most significant increase seen in rural areas, strengthening the inclusivity of digital channels.^{139, 140} However, the efficiency of such sustained fiscal measures may only last while the fee and forex difference between formal and informal remittance remains higher than the incentive.

Other opportunities for enhancing inclusive innovation for remittances (and broader digital financial services for migrants) in Bangladesh are linked to decreasing cash-out charges, implementing wallet interoperability and building a more robust acceptance infrastructure. Penetration of digital wallets for remittances has grown steadily in the past two/three years. Yet, analysis of average remittance transaction values through wallets and other remittance channels shows that average wallet transactions are more than four times lower than average remittances into bank accounts, indicating the possibility that remittance transfers to wallets are primarily used for emergency transfers.¹⁴¹ This trend is possibly driven by wallet players charging 1.5-2 percent for all cash-out transactions.¹⁴² While penetration of mobile financial services in rural areas increased significantly during COVID-19, challenges that influence the usage of MFS by rural customers persist. Apart from high transaction charges, these include insufficient understanding/awareness

¹³⁴ (GSMA, The Mobile Gender Gap Report, 2022)

¹³⁵ (Better Than Cash Alliance, 2022)

¹³⁶ (UNCDF, 2021)

¹³⁷ (World Bank, 2020)

¹³⁸ (IOM Asia Pacific Regional Data Hub, 2021)

¹³⁹ (IOM Asia Pacific Regional Data Hub, 2021)

¹⁴⁰ Monthly data on MFS, Bangladesh Bank

¹⁴¹ Stakeholder Interviews

¹⁴² Stakeholder Interviews

of products and perceived security and trust issues.¹⁴³ Hence, there is an opportunity to drive the uptake of digital wallets by using regulatory interventions to lower the fees charged by wallet providers and build awareness of MFS products.

Stakeholder consultations indicate that the lack of platform interoperability could be a potential challenge, limiting the use case of MFS (including remittance services), especially for rural customers. Studies cite rural customers being forced to use multiple MFS accounts to achieve total efficiency, further limiting usage.¹⁴⁴ However, the market share of the leading player, bKash (75 percent), hints at wallet interoperability being less significant than the need for reducing cash-out charges. A larger focus could also be placed on tracking the deployment of digital payment acceptance infrastructure, as suggested by recent studies in Bangladesh, aiming to create a roadmap for the government, development organisations and private companies to foster a transition to electronic payments.¹⁴⁵

Key takeaways on inclusive innovation within the ecosystem



Innovation ecosystem: Since its inception in 2015, Bangladesh's venture capital ecosystem has seen significant growth. The fintech sector has received the most attention and is one of the top three investment areas by funding volume. This growth has led to private sector innovation propelling the remittance sector in Bangladesh, focusing on driving the uptake of digital remittances and decreasing the costs of sending remittances. However, the ecosystem's focus on gender inclusion needs to be strengthened by increasing access to digital products on the demand side and supporting women entrepreneurs on the supply side.



Regulatory landscape for innovation: A national ID in Bangladesh can drive product innovation with a specific focus on inclusion by introducing processes like e-KYC that could bring many underserved segments into digital financial services. Bangladesh's 2 percent (later raised to 2.5 percent) cash incentive on inflowing remittances announced during the pandemic has also been recognized as a crucial driver of inclusion, and as a result, more migrants switched to official channels during this time. Potential avenues to strengthen inclusive innovation include interventions to decrease cash-out charges, implementing wallet-to-wallet interoperability and developing a robust acceptance infrastructure in the country.

¹⁴³ (Rahman, 2021)

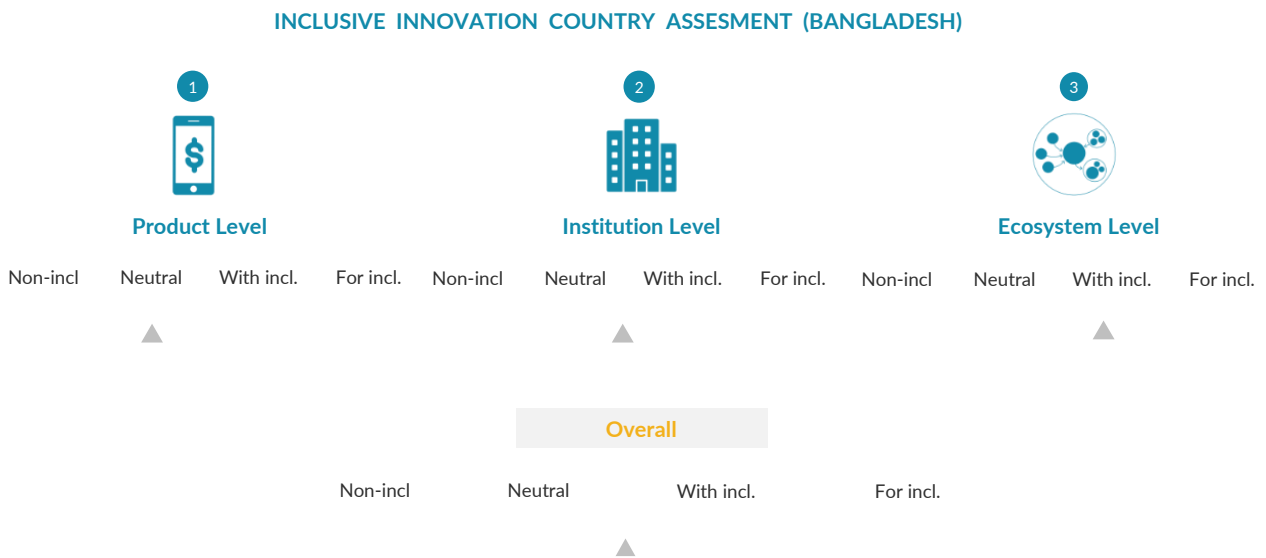
¹⁴⁴ (Rahman, 2021)

¹⁴⁵ (Better Than Cash Alliance, 2022)

CONCLUSIONS ON THE STATUS OF INCLUSIVE INNOVATION IN BANGLADESH

Overall, migrant-centric, inclusive innovation in remittances is neutral in Bangladesh, with various growth opportunities. Figure 9 assesses the overall state of inclusive innovation in Bangladesh at all three levels—product, institution, and ecosystem—along the inclusive innovation continuum depicted in Figure 1. These ratings are informed by a qualitative assessment of the sub-parameters linked to each level and were discussed and validated through stakeholder consultations in the country. Specific institutions within the ecosystem and economy may fall at different points of the spectrum compared to what has been indicated.

Figure 8 Inclusive Innovation Assessment Summary for Bangladesh



Pathways to Leverage Inclusive Innovation

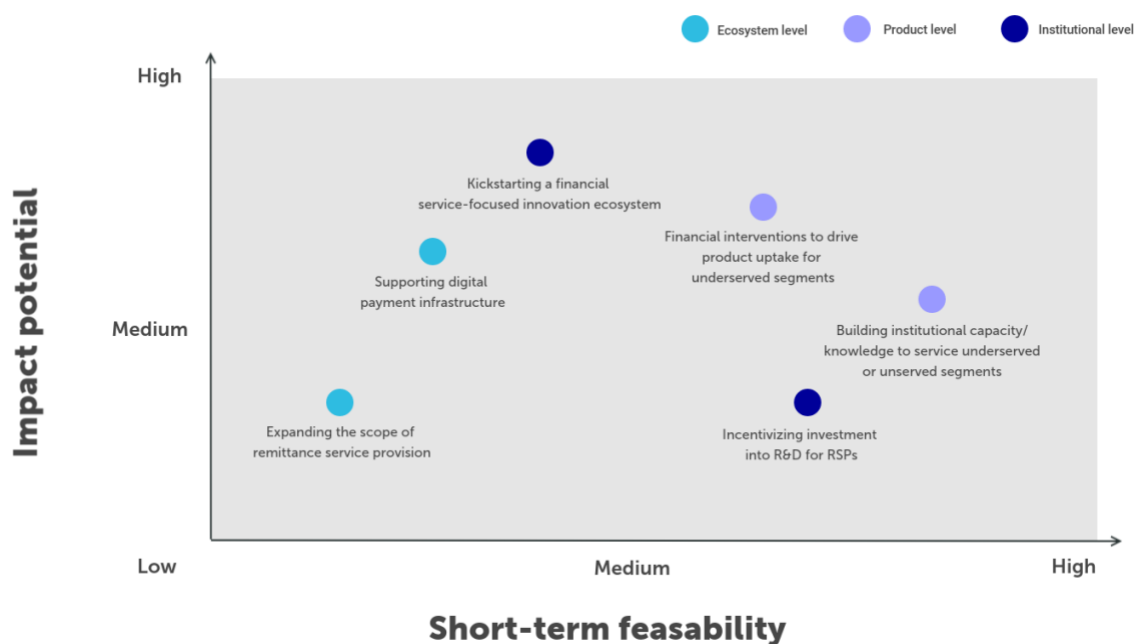
This chapter provides recommendations to leverage inclusive innovation in the country, detailing pathways for RSPs to become increasingly innovative and inclusive and proposing recommendations for the regulator and other players of the broader remittances and innovation ecosystem to support shifts toward inclusive innovation. The chapter starts with an overview and then describes key recommendations, emerging opportunities, and global learnings.

THE WAY FORWARD

There are opportunities to increase the accessibility and affordability of products to underserved segments of the population to make digital remittance channels and linked financial services more inclusive. Key interventions by interested stakeholders should seek to complement clear, open regulations and recent progress on digitizing and incentivizing formal remittances in Bangladesh. This section of the report aims to support and further inclusive innovation by providing recommendations along two dimensions, i.e., accelerating enabling trends and addressing existing gaps at the three levels analysed above (product, institution, and ecosystem).

This assessment on inclusive innovation highlights six key thematic areas that need to be strengthened to ensure migrant remittances are accessible and affordable and help drive financial inclusion for underserved segments in Bangladesh. *Figure 10* analyses these thematic areas, placing them on two axes. On the horizontal axis, thematic areas are rated according to the estimated feasibility of key interventions in the short term, linking to the implementation timeframe (short-, medium- or long-term), the complexity of the intervention, the agility and resources of stakeholders involved, and willingness or inertia to change, among other things. On the vertical axis, thematic areas are placed according to the potential impact of the interventions. This classification helps prioritize specific areas and interventions to support inclusive innovation in remittances in Bangladesh.

Figure 9 Mapping of thematic areas against impact potential and short-term feasibility



DETAILED RECOMMENDATIONS & EMERGING OPPORTUNITIES

Based on the gaps and opportunity areas identified in the previous section, the report details key recommendations at the product, institution, and ecosystem levels in Table 4. While the recommendations are broken down by levels, it is essential to note that certain recommendations have implications or depend on others. The report also identifies an indicative list of stakeholders that should be consulted for implementing each recommendation to make the recommendations more actionable.

Table 4 Key recommendations linked to each thematic area

THEMATIC AREA	KEY RECOMMENDATIONS	RELEVANT STAKEHOLDERS
<i>Product Level</i>		
<i>Build institutional capacity/knowledge to service underserved or unserved segments</i>	<ul style="list-style-type: none"> Conduct market studies on the sending side for major corridors and in Bangladesh to understand migrant demographics, needs, and pain points that influence the decision of remittance channels (especially banks and MFS) and financial products. 	<i>Public and Private Sector</i>
	<ul style="list-style-type: none"> Conduct supply- and demand-side research on gender responsiveness of agent banking and MFS operations linked to remittance and migrant financial products. 	<i>Private Sector</i>

	<ul style="list-style-type: none"> • Increase the share of women agents to encourage more women to utilize remittance services. 	Private Sector
Drive product uptake for the underserved segment through financial interventions	<ul style="list-style-type: none"> • Provide engagement-linked investment to the private sector for innovative and inclusive migrant-centric, gender-responsive savings, credit and insurance products. 	Private Sector
	<ul style="list-style-type: none"> • Support the private sector to develop migrant-centric, gender-responsive remittance-linked savings, credit, and insurance products for migrant families through technical and capacity-building support. 	Private Sector
<i>Institution Level</i>		
Incentivizing investment into R&D for RSPs	<ul style="list-style-type: none"> • Strengthen capacity-building of the private sector on inclusion, business innovation and financial literacy through the uptake of digital financial literacy tools and customization of the HCD and gender-smart product development tools. 	Private Sector
	<ul style="list-style-type: none"> • Provide data collection and analytics support to RSPs to build research and innovation capacity, with a focus on catering to the needs and preferences of women recipient customers 	Public Sector
Kickstarting a financial service-focused innovation ecosystem	<ul style="list-style-type: none"> • Support the creation of a scalable and commercially viable financial resilience ecosystem in Bangladesh through policy and regulatory analysis and sector-level dialogues, building upon the existing programme of MoEW&OE 	Public and Private Sector
<i>Ecosystem Level</i>		
Supporting digital payment infrastructure	<ul style="list-style-type: none"> • Explore possibilities to utilize digital NID and e-KYC to offer innovative remittance and linked financial products for men and women migrants and their family members. 	Public Sector
	<ul style="list-style-type: none"> • Support wallet (MFS) interoperability through policy-level engagements with Bangladesh Bank to increase use cases for inflowing remittances 	
Expanding the scope of remittance service provision	<ul style="list-style-type: none"> • Explore authorizing non-bank MFS providers (e.g., digital MTOs, RSPs and other fintech companies) to deliver remittance services independently 	Public Sector

GLOBAL LEARNINGS & APPLICABILITY IN BANGLADESH

These recommendations leverage and are inspired by research on best practices globally to drive inclusion for remittance products. Below are several case studies from across the globe where interventions such as the ones proposed above have been successfully launched. These relate to remittances or the broader financial services ecosystem and can be valuable reference points while implementing the key recommendations in the Bangladeshi context following customization. While the context may be different, the learnings are still applicable and will provide a blueprint on how some key recommendations can be implemented.

Product intervention case studies

The following case study is related to the product-level recommendation: “Increase the share of women agents to encourage more women to utilize remittance services”. This case study, drawn from a study in Bangladesh, shows that women prefer to transact with women agents and transact higher amounts when interacting with an agent of their own gender.

Table 5 Product Case Study 1

Learnings from Bangladesh: *World Bank: Opportunities for the Women's FS Market*¹⁴⁶

In 2018, the World Bank conducted in-depth research to understand the needs of women MFS users to catalyze the financial inclusion of women, who are traditionally underserved. In doing so, the World Bank segmented women MFS users into four distinct archetypes and noted the product preferences of each along five dimensions (security of funds, transaction velocity, convenience, agent dependency, and low charges). Finally, the Bank performed a market assessment and provided a roadmap for increasing the share of women agents. This learning focuses on the two most agent-dependent archetypes, detailed below:

Fameeda, informal sector worker



- Finds MFS a **convenient alternative to less accessible formal** financial services
- Most important product needs: **security, convenience, agent dependency**

Razia Begum, homemaker



- **Dependent on an agent for MFS use, but wants to learn how to use it herself**
- Most important product needs: **security, agent dependency, low cost**

Key Learnings:

- Both archetypes fully depend **on the agent** for information and trial and **completely trust the agent** to offer support with transactions despite minor issues. They require the agent's help due to **low digital literacy, language barriers, or low confidence**.
- **Women showed a clear preference for agents of their own gender**, with 52 percent of respondents indicating such a preference. Respondents believe women agents would **behave better and provide a better service**. In addition, customers who visited women agents reported a **higher median number of transactions** than those who visited agents who were men.
- However, 97 percent of respondents have little choice but to visit men agents as **fewer than 1 percent of all MFS agents are women**, highlighting the need to recruit women agents proactively.
- Women agents face barriers in terms of **societal norms** preventing their entry, initial working capital shortage, risks associated with owning an MFS agency, and poor customer support from the provider, among other issues.

¹⁴⁶ (World Bank, 2018)

Institution intervention case studies

The role of gender-disaggregated data in driving inclusivity and business results is well documented, as is the role of early-stage risk capital for RSPs. The following two case studies—one from Jordan and the other from a global alliance—demonstrate the successes of the use of gender-disaggregated data as well as cross-sector collaboration to drive early-stage funding and inclusive innovation.

Table 6 Institution Case Study 1

Learnings from Jordan: *A Data-Driven Path to Women’s Financial Inclusion*¹⁴⁷

As evidenced in Bangladesh and other country assessments, even if women use the same number of financial products and services as men, their financial behaviour, usage, and resilience can differ vastly from that of their male counterparts. Thus, there is a crucial need for RSPs and/or stakeholders supporting RSPs to perform analysis on gender-disaggregated data. An example of the successful application of the findings of gender-disaggregated data analysis on product development is by the Bank al Etihad. This FSP disaggregated its customer data by gender and, in doing so, found that women’s savings were lower than men’s in contrast to global trends on women’s savings behaviour. In response, the Bank al Etihad launched the Shorouq Savings Account to encourage women to build savings and financial independence through a prize programme. The account offered users rewards tailored to Jordanian women’s financial security ambitions, including steady income and homeownership.

Key Learnings:

- Tailoring products to women users’ specific needs was an **immediate success** and led to a **six-fold growth in deposits by women** since its launch, as well as **increased savings behaviour**.
- Thus, gender-disaggregated data led to increased inclusivity and **business results** for Bank al Etihad.

¹⁴⁷ (Data2x, 2020)

Learnings from CGAP: *Catalyst Fund accelerator to support inclusive tech innovators in emerging markets*^{148,149}

A CGAP report on fintechs and financial inclusion suggests that while donors and development finance institutions (DFIs) may not have the tools to assess the viability of early-stage business models, they could consider setting up early-stage investment units collectively, which operate similarly to a VC fund but align to development impact. An example is the Catalyst Fund, an inclusive fintech accelerator funded by the UK Department for International Development and JPMorgan Chase & Co, managed by the Bankable Frontier Associates (BFA) Global. Catalyst provides grant funding and technical assistance to new fintechs targeting low-income communities.

Key Learnings:

- The advantage of such a fund is to enable development funders to better **coordinate market-level strategies** between innovation, growth, and exits and to provide visibility on **emerging innovations** for **growth stage investments**.
- Catalyst's portfolio companies have raised significantly more follow-on funding to reach a large **number of underserved customers** for their stage.
- While the average funding amount raised per start-up in the 12 months following an accelerator programme was \$547K, Catalyst graduates raised \$2.5M on average. Catalyst start-ups also operate in emerging markets, where access to capital is more challenging.

Ecosystem intervention case studies

A digital NID in Bangladesh opens multiple avenues for RSPs and banks to use e-KYC to drive financial inclusion and subsequently increase the audience for formal and digital remittances. The case study below details how the government of Sierra Leone seeks to utilize a national ID platform to authenticate credentials with financial institutions.

¹⁴⁸ (CGAP, 2021)

¹⁴⁹ (Catalyst Fund, 2020)

Table 8 Ecosystem Case Study 1

Learnings from Sierra Leone: *Utilizing a National Digital ID Platform for e-KYC*¹⁵⁰

In August 2019, Sierra Leone launched the National Digital Identify Platform (NDIP). This extensible digital architecture enables citizens to present and authenticate digital ID credentials with financial institutions with a long-term aim to provide market-wide e-KYC. The platform uses identity data collected during the 2018 general election build-up. The vision is to ensure that anyone issued identity documents can use the platform to securely authenticate their official identity with FSPs to support e-KYC for new account openings.

The government is working with Kiva, a US-based non-profit entity focused on financial inclusion, to build this platform on secure open-source software. The e-KYC pilot was rolled out in Sierra Leone in February 2020.

Key Learnings:

- Given the open-source nature of the software, **there is no vendor lock-in, and the implementing agency is not dependent on the vendor to maintain the system**, which enables it to scale faster and bring more underserved segments to the formal financial system.
- The pilot demonstrated **effective use of the platform for e-KYC**, with the verification process decreasing from two weeks to about 11 seconds.

Since banks and MFIs are the only institutions in Bangladesh that are licenced to pay remittances and all other providers act as sub-agents, there is a chance to study whether giving these licences to other institutions would help financial inclusion. The following case study highlights the benefits of licensing mobile money providers to provide remittance services in Tanzania.

¹⁵⁰ (Financial Inclusion Global Initiative Security, Infrastructure and Trust Working Group, 2021)

Table 9 Ecosystem Case Study 2

Learnings from Tanzania: Groupe Speciale Mobile Association (GSMA): Licensing mobile money remittance providers – early lessons¹⁵¹ & Dalberg: AgriFin Accelerate – Tanzania Ecosystem Assessment¹⁵²

In 2017, the international mobile phone association GSMA reviewed early learnings from various licensing models relating to mobile money remittance providers. GSMA found that the Tanzania model has several advantages, in which licensed electronic money providers are authorized to provide inflowing and outflowing remittance services.

In addition, strategy consulting company Dalberg conducted a study in Tanzania for Mercy Corps to assess the ecosystem for digital financial and information services for farmers and assess the role of such services in smallholder financial inclusion in Tanzania.

Key Learnings from both Studies:

- A regulatory system that licenses international remittances and mobile money has several advantages, including **greater process efficiency**, the potential to increase competition and reduce remittance transaction costs, and greater market efficiency.
- Further, GSMA also shows that mobile money can play a key role in creating a price revolution in remittances and achieving the remittance price objective set in the SDGs. Using mobile money is, on average, more than **50 percent cheaper** than using the services of global MTOs. It is also particularly **competitive for low-value transactions, increasing global competition** and **driving down the price** of remittance services. Thus, mobile money-enabled remittances are helping broaden financial inclusion objectives.
- The Dalberg ecosystem study of Tanzania showed that **mobile money is improving the historically limited financial inclusion** situation in Tanzania, as **80 percent of the population has access to a mobile phone**, and **36 percent of farmers use mobile financial service providers**, compared to five percent using banks and 24 percent using informal financing mechanisms. However, the high cost of mobile money transfers can be a deterrent, particularly to those who transact small amounts.

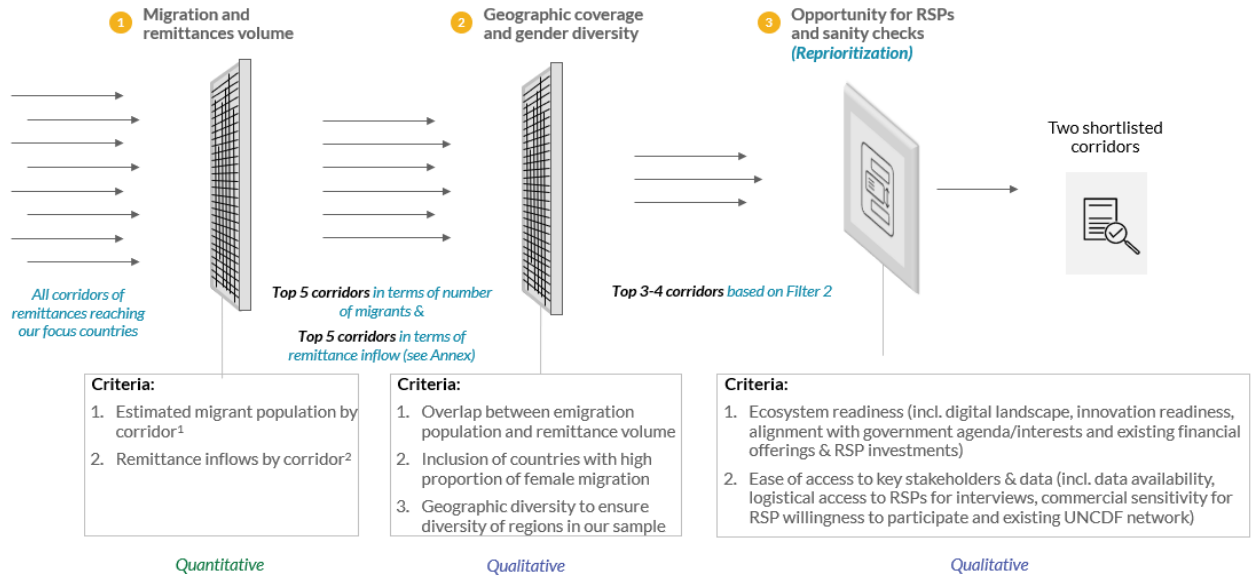
¹⁵¹ (GSMA, Licensing mobile money remittance providers: Early Lessons, 2017) and (GSMA, Driving a price revolution: Mobile Money in International Remittances, 2016)

¹⁵² (Dalberg Advisors Analysis)

ANNEXE 1: Corridor Selection Process

A combination of quantitative and qualitative filters was used (Figure 10) based on key data (Figure 11) to select our two focus corridors (UAE-Bangladesh and Malaysia-Bangladesh).

Figure 10 Corridor Filtering Process



Notes: (1)UNDESA International Migrant Stock, 2020; (2) World Bank Bilateral Remittance Matrix, 2017

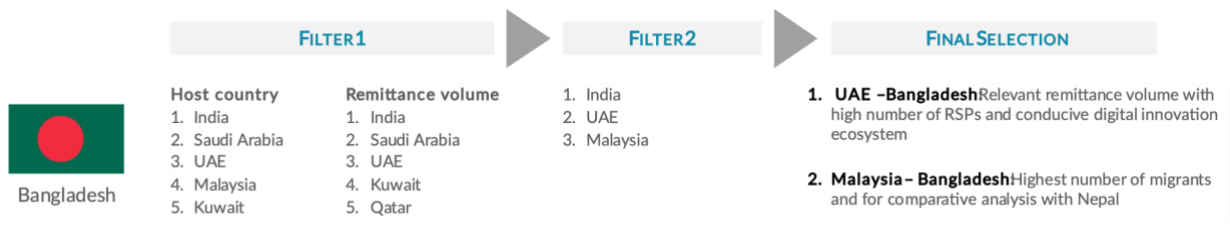
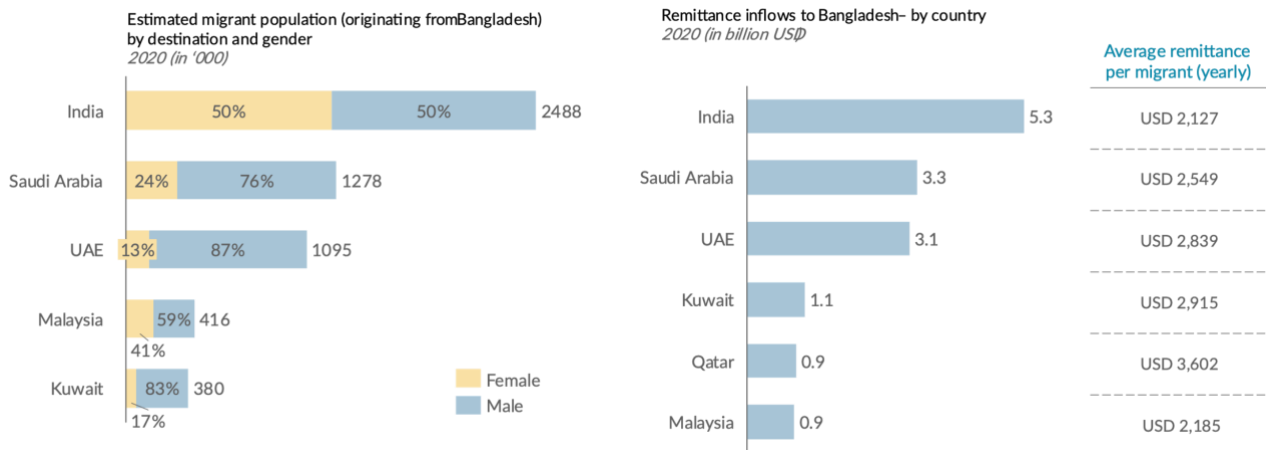


Figure 11 Bangladesh Corridor Data



ANNEXE 2: Stakeholders Consulted

NAME OF THE INTERVIEWEE (DESIGNATION)	STAKEHOLDER INSTITUTION
Mohammad Jakirul Islam (Senior Vice President)	Bank Asia
Samsul Islam Khan (First Assistant Vice President and Deputy Head, Foreign Remittance Department)	Bank Asia
Rashidul Hasan (Manager, Financial Products)	bKash
Nur Mohammad Shahin (General manager)	bKash
Asif Ibne Islam (General Manager of Financial products)	bKash
Shahreear Zamil (SVP, Head of Remittance & Probashi Banking)	BRAC Bank
Name not to be disclosed	Global MTO (confidential)
Abir Chowdhary (Consultant)	World Bank
Nadim Rahman Mohammad (National Programme Officer - Migration & Local Governance)	Swiss Agency for Development and Cooperation (SDC)
Name not to be disclosed	Bangladesh Venture Capital Limited
Shariful Hasan (Programme Head, Migration Programme and Youth Initiative)	BRAC
Raffee E Mahbub (Head of Client Relations)	BRAC MFI
Mohammed Kafil Uddin Ahmed (Project Manager)	BRAC MFI
Rihanul Alam (Operations Manager)	BRAC MFI

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