

# In PRAISE of THE SMALL



# Critical motors of growth and job creation How the rest of the world views SMEs

## TBS REPORT

Economic growth is closely linked to the development of SMEs, which create jobs and feed bigger industries which share a very small portion of employment, but in Bangladesh, small businesses are left to struggle on their own to survive and grow

“We seek to strengthen US-EU cooperation to enhance the participation of SMEs in trade between the United States and the European Union.”

This official announcement on the website of the US Trade Representative (USTR) office demonstrates how the world's number one economy values its small businesses.

Both the US and the EU acknowledge small and medium enterprises as the backbone of their economies. Millions of small manufacturers in Europe and the United States produce some 30% of goods exported from both markets. Even then, the US and EU want to move further under the Transatlantic Trade and Investment Partnership (T-TIP) to help SMEs support jobs and businesses on both sides.

Major Asian economies like China, Japan, South Korea, and European countries like Germany, along with peers in the club of highly industrialised nations — OECD (Organisation for Economic Co-operation and Development), recognise SMEs as critical motors of growth and job creation.

An analysis of contributions of SMEs in jobs and economies worldwide shows that economic growth is closely linked to the development of SMEs, which create jobs and feed bigger industries which share a very small portion of employment.

Developing countries in Asia are



Various incentives offered by the government did not help small entrepreneurs much to pull away from the pandemic-induced devastation. Rather, they are now confronted with fresh challenges, one worse than the other. PHOTO: MUMIT M

also focusing their attention on the development of small businesses to ride to the next level. Indonesia, Vietnam are among them.

But here in Bangladesh, SMEs are still left to struggle on their own to survive and grow.

Even after several reviews, the very definition of SMEs still remains ambiguous, creating hassles for small entrepreneurs while approaching banks for loans or authorities for registration. An SME policy is there, but still remains mostly unimplemented with only a year left before it expires.

Various incentives offered by the government did not help small entrepreneurs much to pull away from the pandemic-induced devastation.

*“The Transatlantic Trade and Investment Partnership will create new opportunities in both the United States and the EU. These opportunities will be especially valuable for SMEs, given that trade barriers tend to disproportionately burden smaller firms, which have fewer resources to overcome them than larger firms.”*

USTR DOCUMENT

Rather, they are now confronted with fresh challenges, one worse than the other.

Shabab Leather founder Maksuda Khatun is worried about where to sell her stockpile of products worth around Tk1 crore as demand falls.

Her business was severely affected by the Covid-19 closures. Now, it is the Russia-Ukraine war.

“Since the start of the war, the price of raw materials has almost doubled, increasing our production costs,” the entrepreneur lamented as The Business Standard approached her ahead of the International SME Day 2023.

The day was observed ceremonially on 27 June in Bangladesh too, with pledges to make ways easier

for SMEs repeated. But these small manufacturers, employers and manufacturers remain neglected. Unlike big business lobbies, the SME associations and even the government's SME Foundation failed to make their voices heard during the annual budget preparation.

But the opposite is happening in developed countries.

The US and EU, whose SMEs provide over half of all jobs and two-thirds of all private sector jobs respectively, now look to promote those small ventures with tariff rebate and relaxed rules under a new trade deal.

“The Transatlantic Trade and Investment Partnership will create new opportunities | SEE PAGE 15 COL 1

## SMEs suffer as economic woes linger

RAFIQUL ISLAM AND JAHIR RAYHAN

Due to the increase in the price of gas and electricity, the cost of manufacturing costs have also increased, but the entrepreneurs are not able to sell the products accordingly

The government's various benefits and incentives for small businesses are yet to pull away entrepreneurs from the pandemic-induced devastation as they are now confronted with fresh challenges, one worse than the other.

The problem with the sale of manufactured goods has added to their existing woes of difficulty in getting loans and an increase in the price of raw materials due to the dollar crisis.

On top of that, due to the increase in the price of gas and electricity, the cost of manufacturing costs have also increased, but the entrepreneurs are not able to sell the products accordingly.

Shabab Leather founder Maksuda Khatun told The Business Standard that the Covid-19 pandemic dealt a huge blow to her business in 2020, from which she is yet to recover.

She said her products worth around Tk1 crore remain unsold.

Maksuda said the pandemic had halted her progress. “Many orders were cancelled. The factory was completely closed for two months, but we had to pay the workers' wages and the rent.”

She began to see a glimmer of hope as SME fairs resumed across the country and was able to sell some unsold goods.

Then, the Russia-Ukraine war dashed that hope.



The number of company liquidations in the country has increased each year since the pandemic broke out in 2020, with 317 facing liquidation in the first nine months of the current fiscal year. PHOTO: MUMIT M

“Since the start of the war, the price of raw materials has almost doubled, increasing our production costs,” the entrepreneur lamented.

Hasina Mukta, owner of Natunatta Boutique and Handicrafts Fashion designer told TBS that it is difficult for her to keep her business afloat.

The wholesale price of yarn and clothes have increased, resulting in a bloated production cost, she said.

The war has increased the price of cotton by almost 40%, Mukta told TBS.

Small businesses like hers can turn around if the government provides raw materials for us at cheap prices and given the opportunity to sell our products abroad, she said.

“Now, we pay 9% interest for loans which should be at 4%-5%,” she suggested.

According to the Registrar of Joint

Stock Companies and Firms (RJSC), the number of company liquidations in the country has increased each year since the pandemic broke out worldwide in 2020, with 317 facing liquidation in the first nine months of the current fiscal year 2022-23.

The number was 301 in the entire past fiscal year.

The previous fiscal years had seen much smaller numbers of company liquidation — 173 in FY21, 93 in FY20, and 84 in FY19.

The companies that went into liquidation during the period were all small and medium enterprises and had a cumulative investment to the tune of Tk17,300 crore. Several foreign-owned companies also faced liquidation — a situation when firms shut down operations and seek to sell off assets.

There are about 78 lakh cottage, micro, small and medium industries in the country. About 2.1 crore manpower is directly and indirectly employed in the SME sector.

The SME Foundation says most of the backward linkage industries in the country are small and medium-sized.

The contribution of the industrial sector to the economy of Bangladesh is 37.07% while it is about 28% for the SME sector.

The government has formulated the SME policy, aiming to increase the contribution of the SME sector to 32% by 2024.

The SME Foundation says that the SME sector contributes 60% to 70% to the GDP of China, Japan, and South Korea. Bangladesh has a lot of potential to increase its contribution to GDP in this sector. And for this, it is necessary to give special facilities to SME entrepreneurs.

Md Masudur Rahman, chairperson of SME Foundation told TBS that entrepreneurs can sell products where there is demand in the domestic market.

“We are connecting entrepreneurs with markets and buyers. We have conducted SME fairs in every divisional city. We have agreements with major domestic and foreign online platforms to sell products online,” he added.

Some products that are not imported due to some LC restrictions are now manufactured by domestic entrepreneurs, creating an opportunity, Masudur Rahman said.

“Various associations of entrepreneurs are holding fairs all over the country. We encourage them. Through this, SME products are increasing in popularity,” he added.

## Critical motors of growth

CONTINUED FROM PAGE 14

in both the United States and the EU. These opportunities will be especially valuable for SMEs, given that trade barriers tend to disproportionately burden smaller firms, which have fewer resources to overcome them than larger firms," reads a USTR document.

Since 99% of European and US companies – over 20 million companies in the European Union and 28 million in the United States – are SMEs, they figure prominently in trade policy making.

The 99:1 ratio is common in composition of small and big companies in most other industrialised countries including Germany, where SMEs account for more than half of our economic output and almost 60% of jobs. SMEs, also known as the 'Mittelstand' in Germany, are the country's strongest driver of innovation and technology, which is behind the success of the 'Made in Germany' trademark worldwide.

In Japan, SMEs represent an impressive 99.7% of all businesses and employ approximately 70% of the country's workforce. Recognising the essential role of SMEs, the Japanese government has established policies and programmes to support SMEs' growth and development as SMEs account for 69% of the private sector labour force.

Apart from spending billions in the Safety Net Loan Scheme – crisis response cash grants after Covid-19 – Japan announced a special \$4.1 billion subsidy package for SMEs to help them adopt IT solutions and develop e-commerce sales channels.

SMEs are regarded as the backbone of China's economy as they contribute over 60% to the total GDP, 50% of tax income, 79% of job creation and 68% of exports. The People's Bank of China reduced refinancing rates and set up special low-cost refinancing funds multiple times to support SMEs.

Tax cuts and financial incentives bring about five million new SMEs every year in China.

SMEs are even more vibrant in South Korea, accounting for 99.9% of all domestic enterprises and providing more than 80% of all jobs in the nation. In terms of value-added, Korean SMEs generate over 60% of all business sector GDP.

These data show how SMEs created the backbone of these economies and are still driving their growth and employment.

However, there is not updated acceptable official data on SMEs, their contribution in GDP or employment in Bangladesh.

Some figures are cited in relevant official documents with no reference to sources. It is

said that about 7.8 million cottage, micro, small and medium enterprises employ nearly 21 million manpower directly and indirectly. The contribution of SMEs to the economy is about 28%, which the government's SME policy aims to increase to 32% by 2024.

The World Bank says nearly 10 million SMEs are contributing to 23% of the GDP, 80% of jobs in the industries sector, and 25% of the total labour force in Bangladesh. The global bank, which ran a number of schemes to support small businesses, says MSMEs are the backbone of non-farm job creation in Bangladesh.

**Despite the absence of consistent data over time, the World Bank draws some useful conclusions from the 2013 Government Economic Census and the Enterprise Survey, counting a staggering 7.8 million enterprises, of which almost 89% belong to the cottage and microenterprise segment, and 11% to the small enterprise segment.**

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Some 99% of all non-farm enterprises fall into the micro and small segments, providing employment to 20.3 million. "As such, this makes them the largest source of employment apart from agriculture – and a key contributor to poverty reduction. The MSME sector overall provides 86% of total employment outside of agriculture and the public sector," it says.

Worldwide, small and medium enterprises have a common abbreviated name – SMEs. In Bangladesh, their abbreviations vary: sometimes SMEs, sometimes MSMEs or CMSMEs representing cottage, micro, small and medium enterprises. There are policies and schemes too, but those have made little change in their real situation so far.

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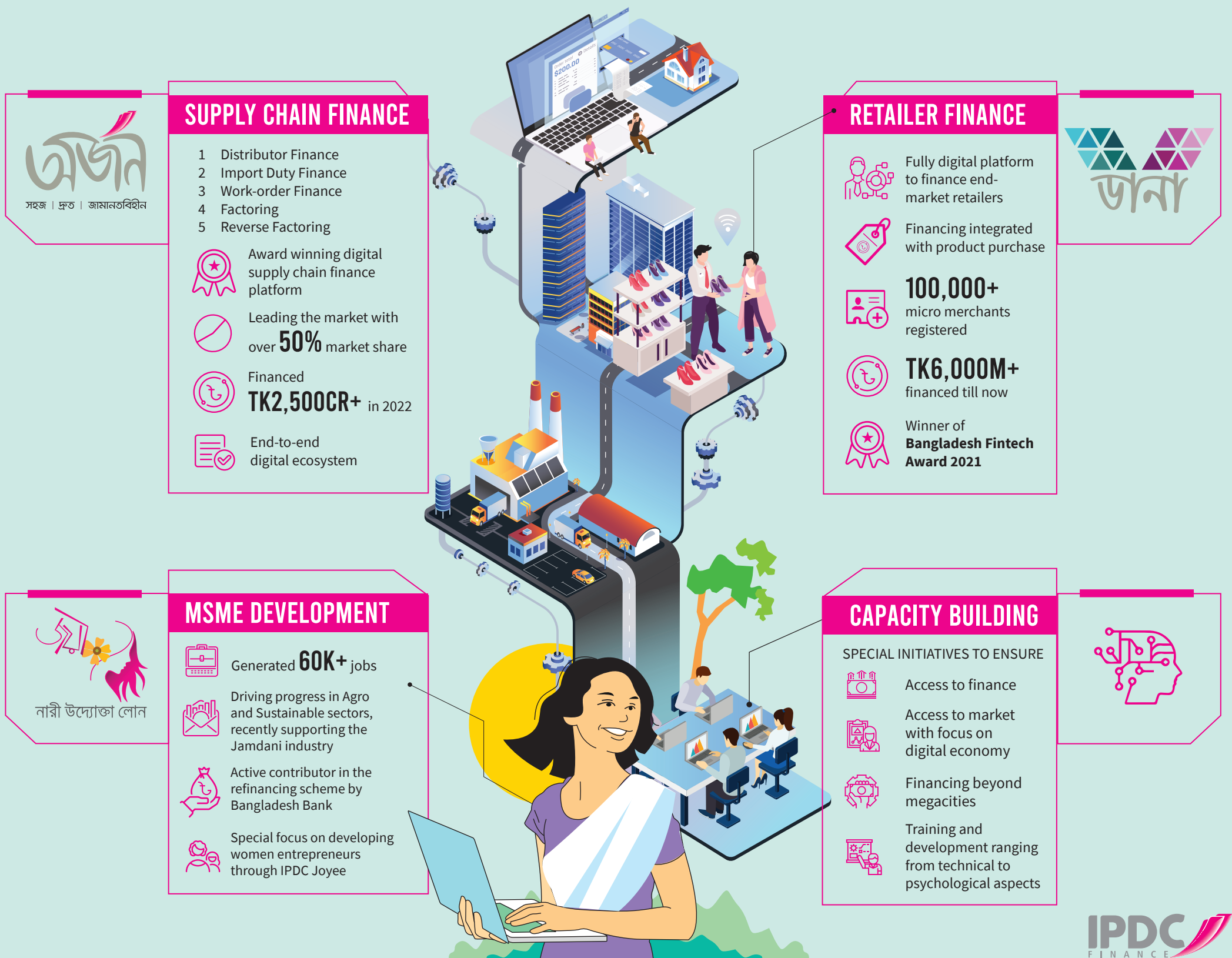


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# ‘Importance of SMEs in a developing country like Bangladesh is immense’

## TBS REPORT

In an exclusive interview with The Business Standard, Mohammed Monirul Moula, managing director and CEO of Islami Bank Bangladesh Limited, talks about the banking industry's shift towards SME financing and the bank's role in fostering the growth of small businesses across the country

### Many banks are now shifting their lending focus towards SMEs in the post-pandemic era. What is Islami Bank planning in this segment?

Islami Bank Bangladesh Limited (IBBL) is the largest commercial bank in Bangladesh and the first Shariah-based Islamic bank in South-East Asia. Since its establishment in 1983, the bank's primary goal has been to establish a welfare-oriented Islamic banking system ensuring equity and justice in the field of all economic activities. It holds

the distinction of being the country's largest investor in financing SMEs.

Small and medium enterprises (SMEs) are often the hardest hit when crises emerge, and the Covid-19 pandemic has been no exception. SME businesses have been significantly impacted negatively by the pandemic, experiencing declines in revenue, profit margins and sales volumes. In response, many banks of our country are changing their business policy, with a shift in focus towards supporting SMEs.

The vision of IBBL includes achieving balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less developed areas of the country and to encourage socio-economic uplift and financial services to the low income community, particularly in the rural areas. Since the inception of this bank, it has been giving priority in financing SMEs.

Following the guidelines and regulations of Bangladesh Bank, IBBL has identified several SME-prone areas where specialised SME/agriculture branches have been established. These specialised branches aim to facilitate potential entrepreneurs' access to financing from the Shariah-based banking sector. The bank intends to open more such branches in other SME-prone areas in future.

**Islami Bank has a presence in over 6,000 units across the country. How can the bank use this network to foster entrepreneurship?**

IBBL is committed to providing banking services that are purely based on Islamic Shariah, and are transparent and efficient. Our goal is to establish and maintain the modern banking techniques, to ensure soundness and development of the financial system based on Islamic principles, and to become a strong and efficient organisation with highly motivated professionals working for the benefit of people based on accountability, transparency and integrity in order to ensure stability of financial systems.

With 394 branches, 236 sub-branches, 2,697 agent outlets and over 2,960 ATM/CRMs, Islami Bank provides services across the country.

Islami Bank has been playing a leading role in creating entrepreneurship since its inception.

The bank is contributing to all kinds of industries through entrepreneurship creation and funding. More than two thousand agriculture-based industries have been developed with the finance of Islami Bank. More than 17 percent of the jute products in the country are produced in institutions financed by Islami Bank. Islami Bank imported 63% of the total fertiliser i.e. worth \$712 million, to the private sector for the development of the agriculture industry.

The bank funded in establishing over 50 cold storages for storing perishable agricultural goods. Around 900 auto rice mills have been set up with IBBL finance. Islami Bank has invested in setting up the country's first auto rice mill and bran oil



MOHAMMED MONIRUL MOULA

mill (rice bran to edible oil factory). It invested in importing all types of light and heavy industrial machinery.

Islami Bank has created 85 lakh direct employment through investment in industries. Not only in light and heavy industries Islami Bank is the highest SME investor bank. More than 6,000 industrial factories are being operated with the financing of Islami bank. Islami Bank is the highest investor in the road transport and shipping sectors of the country. It has provided micro investments to about 9 lakh marginal families in 32,000 villages to eradicate poverty and empower women.

### How is Islami Bank different from its peers in SME financing?

The SME sector is playing an important

role in the economic development and growth of Bangladesh. Islami Bank Bangladesh limited has taken various steps by giving priority to this sector. IBBL encourages SME cluster based lending. Individual SME investments are targeted for women entrepreneurs. Even separate women desks have been set up in each branch to facilitate women entrepreneurs for taking investment.

Islami Bank is carrying out various activities including entrepreneur development training and capacity building of entrepreneurs. The officials of the bank are working tirelessly to deliver SME services at the doorsteps of entrepreneurs. SME Foundation and Bangladesh Bank awarded Islami Bank as "Best Small Entrepreneur" **SEE PAGE 18 COL 1**

## Banks lean in on loans to SME sector

### TONMOY MODAK

Low NPL ratio of SMEs is encouraging more banks to raise SME loan portfolio

Due to various steps taken by the central bank to provide loans at interest rates lower than the prevailing market rates, besides various other efforts of the banks, the disbursement of loans to the Small and medium-sized enterprises (SMEs) sector is on the rise.

Large loans to the industrial sector, by definition, have fewer beneficiaries. Besides, when large loans become non-performing loans (NPL), the entire banking sector takes a hit. There are many precedents of even good banks getting in trouble because of just a few bad loans. Due to the culture of disbursement of large loans, the NPLs of Bangladeshi banks have increased significantly.

On the other hand, SME loan sizes are much smaller than industrial ones. As the loan amount is divided into small portions, the risk of the bank is reduced a lot. Even if one or a few loans become NPL, the health of the bank is not affected much.

Besides, the NPL ratio is low in the SME sector. Banks are now leaning towards SME loans due to these reasons. There are banks that have doubled the amount of SME loans in total loans in the past year.

According to central bank data, SME loan outstanding in the banking sector has increased by about Tk15,000 crore in the last one year. Outstanding loans in the sector stood at Tk2.44 lakh crore at the end of the March quarter this year. It was Tk2.29 lakh crore in the same period last year. That is, the loan growth in this sector has been 6.51% in one year.

The central bank is also taking various steps to increase SME loans. Bangladesh Bank asked banks and non-bank financial institutions to raise their loan disbursement ratio for cottage, micro, small and medium enterprises (CMSME) to 25% of their outstanding loans by 2024.

Bangladesh Bank has a Tk3,000 crore scheme titled "Small Enterprise Refinance Scheme for Women Entrepreneurs" to achieve at least 15% of the net credit and advance status of the CMSME sector to women entrepreneurs by 2024. Under this scheme women entrepreneurs get loans at a maximum of 5% interest/profit.

At present, almost all commercial banks are focusing on the SME sector. Several private banks in particular have been success-

ful in disbursing loans in this sector. One of them is private sector-owned BRAC Bank. More than 50% of their entire loan portfolio is invested in the SME sector. About 30-32% of the remaining loans are in the corporate commercial sector and 17-18% in the retail sector.

Selim RF Hussain, chairman of the Association of Bankers Bangladesh (ABB) and managing director and CEO of Brac Bank said, "we believe that investment in the SME sector is sustainable and makes the biggest contribution to our country's economy or society. We have disbursed loans worth over Tk14,500 crore to around 166,227 SME customers in 2022."

Discussing the future prospects of the country's SME sector, he also said that after the Second World War, countries like Germany and Japan showed how an economy could be made stronger through the SME sector, even after the devastation of a war.

It is said that the SME sector contributes 25% of our country's GDP. This is old data. At present, this rate is higher. Employment is also high in the SME sector. That is, the development that is happening in the country is spreading to the marginal areas through the SME sector. If a developing country like Bangladesh has to accelerate the pace of development, it has to be done through the SME sector.

In addition to private banks, state-owned banks also aim to increase lending to the SME sector. Among them, Sonali and Agrani Bank are performing well in such loan disbursements.

Md Afzal Karim, Managing Director and CEO of the state-owned Sonali Bank told TBS that they set different annual targets for SME loans.

"We have oversight to achieve this. We are moving towards the goal very fast. Eight percent of our loan portfolio in 2021 was in the SME sector. Now it is more than 14.5%. If a good entrepreneur in the SME sector comes to us for a loan, no matter how small, we finance them. We are giving loans up to Tk10 lakhs without collateral, and Tk75 crores with collateral in these sectors. We have seen that if supervision is good in SME loans, NPLs are very low."

Md Murshedul Kabir, managing director (MD) and CEO of Agrani Bank said among the state-owned banks, Agrani Bank has the highest outstanding SME loans.

"We are trying to expand SME lending in urban as well as rural areas of the country. All our zonal and local branches have been instructed to give priority to disbursement of SME loans. Besides, supervision and governance has been enhanced in disbursement of loans, so that the loans given in this sector are properly recovered."

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# Brac Bank looks to double SME portfolio in next 2 years

SAKHAWAT PRINCE

In a discussion with **The Business Standard**, the Deputy Managing Director and Head of SME of Brac Bank, **Syed Abdul Momen**, highlights various issues in SME financing, the bank's future goals for the sector, and the factors behind its success

With 53% of its total loans to SMEs, Brac Bank is a leading lender to small businesses in the country. Currently, their total loan portfolio to the SME sector is Tk22,000 crore, which they want to double in the next two years.

In a discussion with TBS Staff Correspondent Sakhawat Prince, the bank's Deputy Managing Director and Head of SME, Syed Abdul Momen, highlighted various issues in SME financing, the bank's future goals for the sector, and the reasons behind the success of the institution.

## What are Brac Bank's goals in regards to SME financing?

Recently, we reached a milestone for giving loans worth Tk15 lakh crore to 15 lakh customers in the SME sector. This is a cumulative calculation. Although you see that the

total loan amount in the banking sector is about Tk15 lakh crores. So, I would say that Brac Bank is one of the significant contributors to the country's SME sector.

We currently have NPLs below 3%. Brac is lending to SMEs through banks and various MFIs. Brac has been able to contribute only 3% to 4% to the market demand of our country. We still have the opportunity to tap into about 95% percent of the market.

So far, the total SME portfolio of Brac Bank is Tk22,000 crores. Among them, Tk16,000 crore worth of loans are collateral-free. Our aim is to double the current portfolio in two years. At present 53% of our bank's chest is with SMEs.

We work with four sectors in our SME loan activities, which includes small finance and emerging corporate (loans worth Tk75 lakh to Tk1 crore). Apart from ourselves, we also break loans through MFIs. Currently we have about 22 NGO customers.

## How did Brac Bank formulate its SME loan plan?

The visionary of our SME loan plan was Sir Fazle Hasan Abed. He went to a UN program in 1999, where two main problems of Bangladesh came up in an analysis. One of those was small business's access to finance.

The second one was that most people in Bangladesh work in rural areas. But their families continue to live in rural areas. There is no mechanism to easily send the money earned in the cities to the villages.

He created two institutions to solve these two problems — Brac Bank to solve the first and bKash to solve the second.

There have been many changes to the business model in our 22-year journey. We

realised that it will take money to disburse the loans, but where will the deposits come from? The deposits are in the cities. From that thought, we started retail banking and branch banking. Our model was that we would take cash deposits from these customers from urban areas and then distribute this money in rural areas.

## What are your plans regarding corporate banking?

As time progressed, we saw that corporate banking was also an option. Corporate banking offers large deposits with other benefits. And if we want to disburse SME loans, we need deposits. Since deposits from the SME sector are small, we also expanded our corporate loan portfolio. We are now a complete bank.

There is only one problem with SME lending — the cost is high. Our next plan is to bring SMEs fully into the banking system within the next two years. The amount of deposits will also increase as the number of accounts increases.

## How risky is it to distribute loans at the marginal level?

We have been learning through trial and error. We too were in a bad situation once. In 2013, we started a new business model, which is still in place, albeit with some changes. But the basics remain the same; experience is the biggest thing here.

We have a long experience of 22 years. And Brac as an NGO has 40 years of experience. Our credit managers are spread across the country. There are over 200 credit managers.

Only credit managers can approve loans. You might think of a credit manager as a head office. Brac Bank is able



SYED ABDUL MOMEN

**There have been many changes to the business model in our 22-year journey. We realised that it will take money to disburse the loans, but where will the deposits come from? The deposits are in the cities. From that thought, we started retail banking and branch banking. Our model was that we would take cash deposits from these customers from urban areas and then distribute this money in rural areas.**

to disburse loans within three days of application. This time is also taken to bring the signature of the guarantor, to bring the CIB of the central bank and to collect some other documents.

Tk50,000, for which no CIB is required.

## Why is Brac Bank so popular among SME borrowers?

One of the reasons behind our milestone SME lending is that when we go to the customer, the customer does not have to come to us. We have 3,000 field workers, whose target it is to reach 3,000 people. They go to the customers by going around the market. They then convince the customers to take loans. This is the main reason.

## What is the role of Brac Bank's digital platform in disbursing SME loans?

We currently have 80 offices running on the digital platform. We have created an app for customers through which they can apply for small loans of Tk20,000-

## Financing SMEs is a good

CONTINUED FROM PAGE 18

### What further policy support could the government provide to banks in terms of SME loan disbursement? What could help improve SMEs gain better access to finance?

Bangladesh, like any other country in the world, has been focusing on the Cottage, Micro, Small & Medium (CMSME) sector for poverty alleviation, employment and domestic production growth. Bangladesh also considers the CMSME sector as an engine of growth. Bangladesh currently has about 78 lakh SME entrepreneurs. It is estimated that CMSMEs constitute a significant component of economic enterprises accounting for over 97% of all enterprises in Bangladesh. The sector employs about 25 million people. Expansion of the CMSME business portfolio would ensure sustainable profitability thus impacting the overall socio-economic scenario of the country. The following points might be considered for further policy support:

a) As SMEs in Bangladesh are mostly traders the trading sector needs to be rearranged.

b) SME Distributor clients from large corporations might be considered in the service sector as they are selling locally made products which also increase the country's domestic production.

c) Actual SME data is missing. A separate government institute is necessary to register SMEs across Bangladesh.

We need to address the following points for better access to finance:

a) Financial and accounting literacy training  
b) Undertake appropriate supervision of financial products offered to social and micro-entrepreneurs

c) Expand the Credit Guarantee Scheme to all SMEs where collateral is an issue.

**The SME sector accounts for over 50% of the GDP in most developed countries. The ratio is 60% in neighbouring India and 45% in Vietnam. In our country, however, SMEs constitute 25% to 27% of the GDP, although the sector holds 80% of total industrial jobs. What do you think holding SMEs back in our country?**

We personally think that the following major factors are holding SMEs back in our country:

a) Informal activities account for a sizable portion of the role of SMEs in our economy. SMEs are also not properly included in the formal registration process.

b) Many SMEs lack access to land, electricity, gas and other necessities required for running their businesses.

c) The third factor to consider is skill development. SMEs generate ideas, but they frequently struggle to find the skilled manpower required to put them into action.

d) Inclusion of technology in sales, stocks and receivables management. Lack of academic literacy among SME entrepreneurs is a challenge including technical and financial literacy.

e) Entrepreneurship development mindset during academic curriculum (change in the education system) could encourage many young graduates to enter a business rather than rushing to the traditional job market.

## EBL aims to be a market

CONTINUED FROM PAGE 20

time to time; so far now the policies are very much accessible to the customer. The application of the credit guarantee scheme needs to be more bank & customer friendly so that banks focus more to finance SMEs. All the financial institutions are following as per given guidance of Bangladesh Bank. Proper awareness is required among the both parties, the FIs and the customer to improve better access to SME finance.

**The SME sector accounts for over 50% of the GDP in most of the developed countries in the world. The ratio is 60% in neighboring India, and 45% in Vietnam. In our country, however, SMEs constitute 25% to 27% of the GDP, although the sector holds 80% of total industrial jobs. What do you think**

### is holding SMEs back in our country?

As I mentioned earlier, our SME customers are not well structured as of now. If we see the SME market in developed countries we will find the major differences among us are the Structural Development, Know How, Skill Development, Entrepreneurship Development, etc. The total ecosystem is built in such a way that it helps the SMEs to grow better and it attracts the banks to go for more financing in SME sector. It develops a winning position for all parties. We must take the best practices of developed countries and we need to develop more on our side to increase the percentage of the contribution in our GDP. The scope to improve in the SME ecosystem is still huge.

Furthermore, due to not having proper structure and formal documents FIs also could not finance them in their business development.

## LankaBangla to offer

CONTINUED FROM PAGE 21

digital services of our own accord. We have a digital platform called 'Quick Loan', for which you have to apply online. We provide loans of up to Tk5 lakh. Besides, we are giving loans through MFS providers as well.

We have developed a new software through which

entrepreneurs can apply for a loan of up to Tk35 lakh online. But for this some business documents will need to be uploaded online. This software is ready, which will be launched in the first week of August. A customer will be informed within three days whether they will get the loan or not. But gradually, that will be brought down to within 24 hours of application.

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এসএমই গ্রাহক

**১.৫** লক্ষ-কোটি  
টাকার  
ঋণ বিতরণ

এভাবে দেশের ১ কোটি পরিবারের জীবন বদলে দিয়েছি আমরা...

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এসএমই মানেই ব্যাংক ব্যাংক**

# 'Financing SMEs is a good way to diversify loan portfolio'

TBS REPORT

Dhaka Bank has recently focused on SME Business and has a plan to raise its SME portfolio. The Business Standard spoke to Md Mostaque Ahmed, the Deputy Managing Director and CEMO of Dhaka Bank Limited, to learn about its planned contributions to the SME sector

**What does your bank aim to achieve with its SME loans? Have SME loans been profitable for your organisation? How big is your SME loan portfolio at present?**

MSMEs are a vital engine of economic growth and job creation in many developing countries. By providing financial support to MSMEs, Dhaka Bank aims to help foster entrepreneurship, innovation, and overall economic development. Dhaka Bank is continuing to widen its CMSME portfolio by promoting fresh lending to new borrowers belonging to various CMSME business segments.

**Since the corporate segment has reached a level of saturation and strong price competitiveness, Dhaka Bank has begun diversifying its loan portfolio into SME and other emerging business segments.**

Nowadays, SME loans have become profitable and have the following benefits for banks in growing CMSME businesses:

- a) Provision benefit; For a standard CMSME loan general provision is 0.25%; but for other loans, it is 4% to 5%.
- b) Refinance benefits from the Central Bank and other bilateral local/international stakeholders.
- c) Portfolio diversification and lower concentration risk.
- d) Capital requirement for external credit rating, risk-weighted 75% is required for un-rated SME loans (Up to Tk 30.00 lac) but it is 125% for corporate loans.

Being a second-generation bank, Dhaka Bank has recently focused on SME Business and has a plan to raise its SME portfolio to 25% of total loans and advances by 2024. Currently, SME loans contribute 13% of the bank's total loans and advances.

**What businesses in the SME sector have good potential for growth?**

The following businesses in the SME sector have good potential for growth. Dhaka Bank has taken the following sectors as preferential for SME Financing: cluster financing; agriculture and food processing; RMG; ICT; leather industries; light engineering; jute industries; plastic industries; tourism industry; home textile; renewable energy; automobiles; handicraft; energy saving appliances; toy industry; furniture industry; cosmetics and toiletries industry; and electronics servicing.

Besides that, Dhaka Bank has introduced Supply Chain and Distributor Finance Business under the umbrella of the MSME and Emerging Business Division to cater to more SME Centric businesses.

**Would you please provide an overview of your experience in the banking industry, particularly in SME banking? How many years have you been involved in SME Banking?**

I have been working in the banking industry for the last 24 years. During this phase, I worked in various capacities from branch banking to corporate and SME Banking including agricultural and NGO financing

and trade finance business. I have been working in the business segment mainly dealing with SME and Emerging Business clients for almost my entire career.

In April 2016, I started working in the SME segment as Regional Head of Medium Business in my previous organisation. I have participated in several training workshops and seminars for SME businesses both in Bangladesh and abroad. I have also participated in the Global SME Finance Forum in Beijing, China. Since March 2021, I have been working as the Divisional Head of MSME and Emerging Business covering the Supply Chain and Distributor Finance Business of this bank.

**How would you say SME banking is different from traditional corporate banking?**

Corporate clients are more structured and organised than SME clients as corporations are mostly run by skilled staff. SME customers do not store their business data and documents properly. Their sales do not reflect accurately in banking transactions. Also, they maintain inventories/stocks and receivables in an informal manner compared to traditional corporate banking.

**It is estimated that CMSMEs constitute a significant component of economic enterprises accounting for over 97% of all enterprises in Bangladesh. The sector employs about 25 million people. Expansion of the CMSME business portfolio would ensure sustainable profitability thus impacting the overall socio-economic scenario of the country.**



MD. MOSTAQUE AHMED

**What are the typical banking products and services offered specifically for SMEs? How many SME loan products does your bank offer? In your opinion, which financial products are most crucial for SMEs, and why?**

The typical banking products are Working Capital Finance (OD & CC loan), Trade Finance, Term Loan, Lease Finance, Bank Guarantee etc. We offer a wide range of SME products to our customers. We have both tailor-made and Product Program Guideline (PPG) based products which also include Cluster Financing, Supply Chain & Distributor Finance, Start-up Finance, Women Entrepreneurs Finance etc.

**What is the rate of default loans from the SME sector in Bangladesh? How do banks assess the credit-worthiness of SMEs and what are some effective strategies for managing credit risk in SME banking?**

The rate of default loans in the SME sector is approximately 14%. Dhaka Bank has a separate MSME Credit Policy which contains proper guidelines on booking SME clients. Before approving a customer, we analyse the borrower's ability to repay and end with an arrangement of adequate security and covenants for the mitigation of risk. To effectively analyse the risk in a credit exposure, certain key parameters must be considered, such as:

- a) Financial Analysis
- b) Proper Utilisation of Fund
- c) Loan Repayment Trend Analysis
- d) Working Capital Assessment
- e) Collaterals
- f) Cash Cycle Analysis
- g) Debt Structuring
- h) Other Qualitative Factors

SEE PAGE 17 COL 1

# Importance of SMEs

CONTINUED FROM PAGE 16  
Friendly Bank" of the country.

**Tell us about some success cases of Islami Bank in creating SME entrepreneurs in rural areas.**

Islami Bank is a global pioneer and world's largest operator of Islamic microfinance. RDS (Rural Development Scheme) is the medium for developing rural entrepreneurs. The bank has been transforming millions of rural poor to successful entrepreneurs since its establishment of RDS in 1995.

Currently the bank has enrolled 1.7 million members across 32,000 villages of Bangladesh under financial inclusion. The scheme operates with an integrated development approach with typical collateral free

**The vision of IBBL includes achieving balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less developed areas of the country and to encourage socio-economic uplift and financial services to the low income community, particularly in the rural areas. Since the inception of this bank, it has been giving priority in financing SMEs.**

micro investment and compulsory savings supported by entrepreneur development activities plus ward stipends, sanitation aid, medical camps, profit-free loans, rehabilitations and plantations. The graduated clients successfully utilising the micro investment slabs can avail larger investments under micro enterprise scheme. The 98% rate of recovery in the project demonstrates remarkable impact in poverty alleviation. Another salient feature being 92% majority of the beneficiaries are women which gears up the women empowerment practice in the rural settings. The successful practice by the bank has been replicated to the urban poor since 2012.

**What prospects do you see for banks in SME lending in the near future?**

IBBL provides investment to small and me-

dium industries for arrangement of working capital, business expansion and capital machinery procurement. In order to take forward the SME sector in Bangladesh and implement SME loan management and special initiatives in this sector, Bangladesh Bank introduced a new division named SME and Special Programme Division in 2009. The SME and Special Programme Division has taken a number of schemes, programmes and policy initiatives for the development and expansion of small and medium enterprises.

IBBL introduced a number of schemes and programmes to ensure facilities including funding for the development and expansion of SME investment. It has been playing a significant role in exchanging economic growth, employment generation, creating new business sectors, reducing poverty, reducing rich-poor gap and regional discrimination, ensuring equality of women and empowering them. The importance of small and medium industries in the development of a developing country like Bangladesh is immense. Currently, most industries in the country are covered by the SME sector. In addition, to achieve the ability to produce import substitute products, its role is also increasing rapidly.

IBBL has already taken a number of schemes and programmes to create entrepreneurs and enhance the skills of entrepreneurs. Currently, the bank is in agreement with the Bangladesh Bank, the SME Foundation, the IDA and the ADB in relation to the repatriation of funds for the development of the Asian SME sector.

**How does digitalisation impact cost management of SME lending in the banking industry?**

The government has set a target of building Smart Bangladesh by 2041. In order to keep pace with the Digital Bangladesh and Smart Bangladesh action plans, the country's banking sector is converting into a digital system gradually. Digitalization provides ample opportunities for SME financing to decrease transactional costs to minimum. Furthermore, the partial automation of data collection for investment assessment and monitoring as well as the automation of internal processes increase efficiency and thus allow banks to serve more SMEs. Besides, Banks are interested in SME investment as the amount of investments is low.

Digital investment applications of SME finance significantly reduce the time and resources needed in the application process. Online applications only take a few minutes and can be done via laptop or phone at any time avoiding hour-long and paper-based procedures. Approval times have been shrunk from weeks to days or a few minutes. Repayment system has also been easy due to digital banking operations.

## লংকাবাংলা সিএমএসএমই লোন উদ্যোক্তাদের স্বপ্নপূরণে

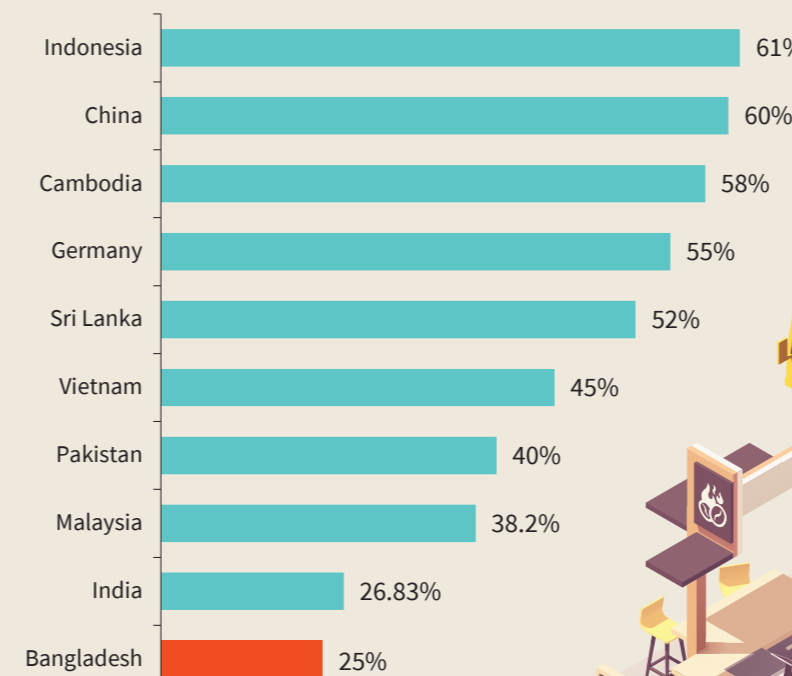
**কোনো উদ্যোগই ক্ষুদ্র নয়, পাশেই আছি সবসময়**

লোনের শর্ত, কিস্তি, আর প্রসেসিং যখন একেবারেই সহজ, তখন পিছিয়ে না থাক কোনো উদ্যোগ। উদ্যোক্তা-বান্ধব সিএমএসএমই লোনে ব্যবসায় হোক সমৃদ্ধি আর সাফল্যের যোগ। কার্যকরী সহযোগী হয়ে আপনার সাথেই আছে লংকাবাংলা।

খুদ্র ব্যৱসা (আমানতসহ)	খুদ্র ব্যৱসা (আমানতসহ)	মাগারি ও সঞ্চয়নাময় ব্যৱসা	নারীদের জন্য বিশেষায়িত ঋণ
অন্য বিশ্বাস সম্পর্ক	আছা ইজারা আবাস স্বর্ণগী দুর্বার সরল	টার্ম লোন স্বইন্যালিং লিজ/আসেট ফ্যাকড স্বইন্যালিং গ্যারান্টি কাপিটাল সলিউশন	শিখা অনন্যা

# SMALL IS BEAUTIFUL

## CROSS COUNTRY COMPARISON OF SME CONTRIBUTION TO GDP



Note: There is no official data on Bangladesh's SME contribution to GDP other than Asian Development Bank's 2015 study. Govt aims to increase the sector's contribution to 32% by 2024.

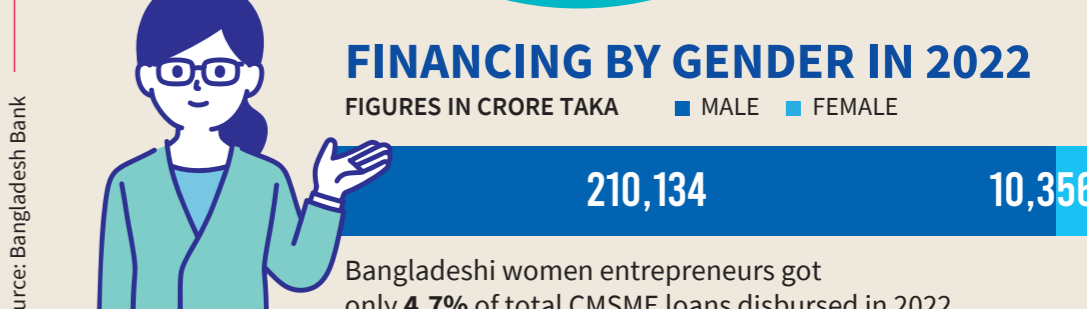
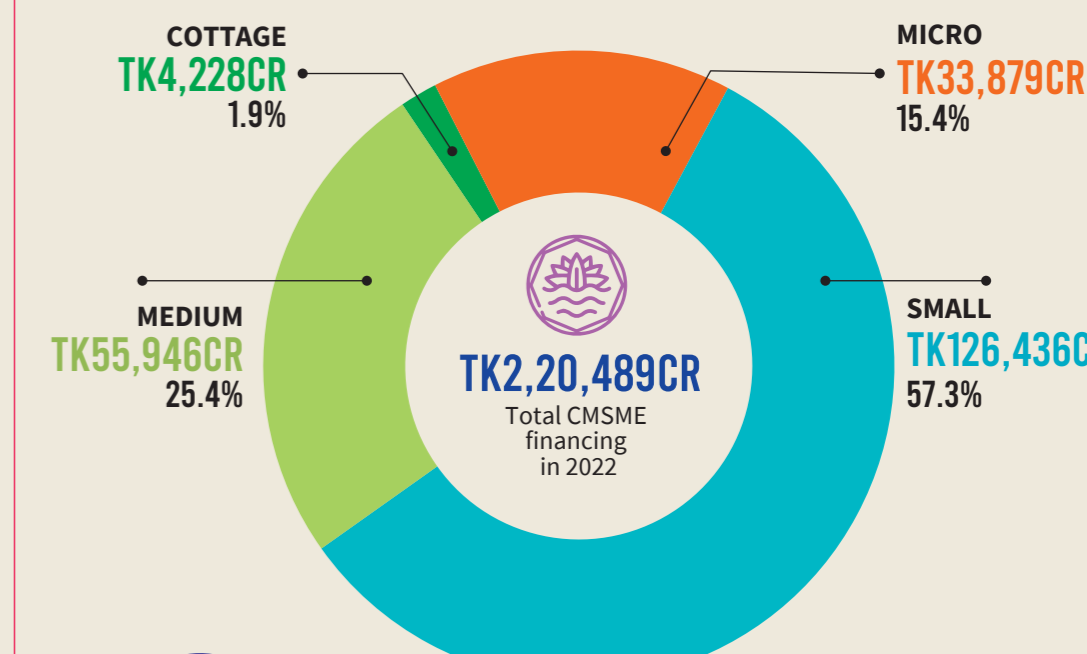
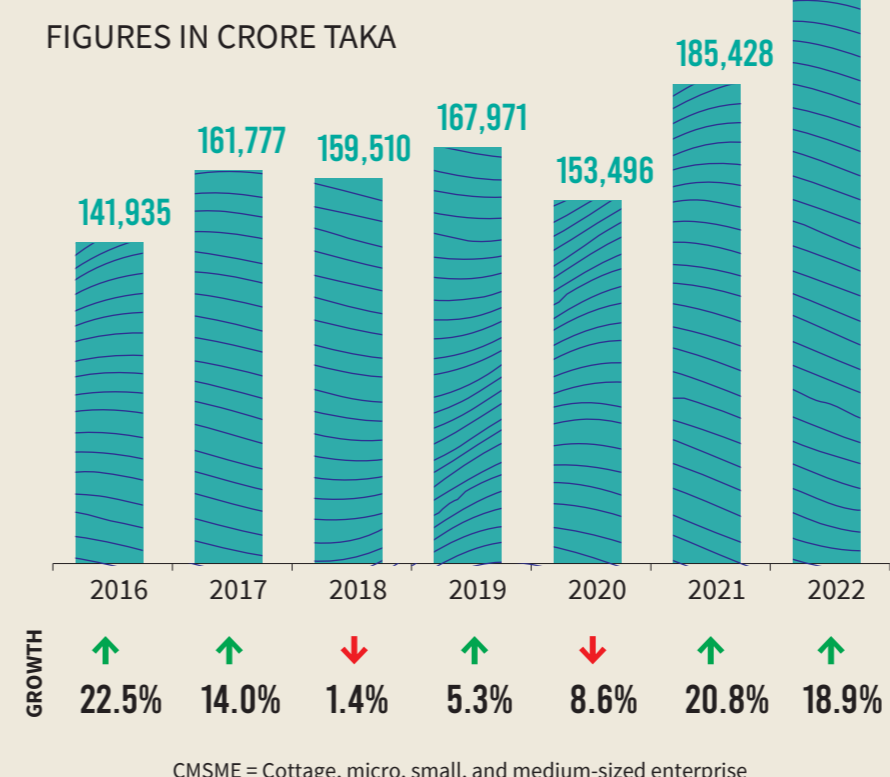
Sources: Latest available data from respective ministries, OECD, United Nations, and State Bank of Pakistan.



## GLOBAL OVERVIEW

- SMEs represent **90%** of businesses worldwide
- More than **50%** of employment worldwide
- Formal SMEs contribute **up to 40%** of GDP in emerging economies
- In emerging markets, most formal jobs are generated by SMEs, which create **7 out of 10 jobs**
- SMEs are the **backbone** of Europe's economy
- They represent **99%** of all businesses in the EU
- Account for **more than half** of Europe's GDP
- In OECD countries, SMEs account for about 99% of firms and 70% of all jobs
- They contribute more than **50%** of GDP in high-income countries worldwide

## CMSME FINANCING BY BANKS AND NBFIs IN BANGLADESH



## DEFINITION OF SMES

Type of industries	Amount of investment in taka (Replacement cost and value of fixed assets, excluding land and factory buildings)	Manpower
Cottage	Below 10 lakh	Maximum 15
Micro	10 lakh to 75 lakh	16 to 30
Small	Manufacturing	75 lakh to 15 crore
	Service	10 lakh to 2 crore
Medium	Manufacturing	15 crore to 50 crore
	Service	2 crore to 30 crore

## SME CLUSTERS IN BANGLADESH

- There are **177** SME clusters
- Of which, **129** fall under SME booster sectors
- 48** Non-booster SME sectors
- With about **70,000** enterprises

EMPLOYING ABOUT **20 LAKH PEOPLE**

**74%** males | **26%** females

Annual turnover is about **TK30,000CR**



# EBL aims to be a market leader in SME lending

## TBS REPORT

In an exclusive interview with **The Business Standard**, **M Khorshed Anowar**, Deputy Managing Director and Head of Retail and SME Banking at Eastern Bank Limited (EBL), discusses the bank's lending practices to small businesses and how SME financing is helping businesses grow

### What does your bank aim to achieve with SME loans? Have SME loans been profitable for your organisation? How big is your SME loan portfolio at present?

EBL's aim is to be one of the market drivers in SME lending with competitive product solutions for customers. In doing so, we have taken a few good steps to enhance our current SME products basket. From working capital to fixed asset finance we have a custom based product nature.

The maximum portion of our SME portfolio is based on collateral-free loans, keeping in mind that SMEs do have diffi-

culties in providing collateral. We believe unsecured access to finance is important for them and it is more impactful for helping their business to grow. Yes, of course we are also profitable here and due to a different refinance scheme from Bangladesh Bank, it is getting easier for us to choose SMEs as a potential segment for business. Our current SME portfolio is roughly over Tk3,500 crore.

### What businesses in the SME sector have good potential for growth?

Though the major percentage of the SME portfolio is in the trading sector in line with the country's concentration on trading business, recently EBL is focusing more on manufacturing business and the businesses which are related to the backward and forward linkage manufacturing industries. There are so many small concerns growing up to supply different types of garment accessories, raw materials, semi-finished goods and finished goods.

We are focusing on those through capacity enhancement, supporting working capital, and bill discounting. Fleet financing is a new way of smoothing the delivery system of a business and EBL is doing an extraordinary job in this segment.

### How would you say SME banking is different from traditional corporate banking?

There is a big difference: SME customers are not well structured in our country. Fund diversion has a big change in this segment which leads them to default at the end. Our SME relationship managers (RMs) have to guide and monitor them very closely so that the customer remains

on the proper track.

We have trained the RMs to be the financial advisor of the customer which will reduce the chance of default. To find out the customer's actual need, we always closely study them, which is usually not required in corporate banking. We require developing different types of products from time to time based on the business type and fund needs. Good part of the SME sector is the risk diversification as we finance more customers along with a diversified industry than a big volume to a single customer.

### What are the typical banking products and services offered specifically for SMEs? How many SME loan products does your bank offer? In your opinion, which financial products are most crucial for SMEs, and why?

Most of the financial institutions offer mortgage free finance where the loan limit is not big. This practice is giving a mixed experience to a customer; some are doing well and some are not. The main reason is the mismatch between the fund needs and the sanction amount. Over finance and under finance, both are bad for the customer. In most of the cases mortgage free loans are not properly investigated of the actual purpose therefore under finance has a chance to occur and the customer fails to generate the right outcome using the fund.

EBL has developed numerous SME products based on the customer needs and type. Currently we have developed more than 15 custom SME products which we offer to the customer as per their



M KHORSHED ANOWAR

needs. Sometimes we offer bundle products to cater the customer rightfully. These products are mortgage free and mortgage base. Term loan on purpose based is very much crucial for the SME customer.

As this loan is EMI-based therefore after a certain period of time the loan outstanding becomes zero. For SMEs unsecured loan nature is very important as they cannot give collateral for loans. Keeping this in mind the maximum portion of EBL's SME is based on unsecured loans.

### What is the rate of default loans from the SME sector in Bangladesh? How do banks assess the creditworthiness of SMEs and what are some effective strategies for managing credit risk in SME banking?

According to news reports, the CMSME sector had the second-highest level of NPLs, which accounted for 12% of the total outstanding loans of Tk44,790 crore as of December. Our assumption it may reach up to 16% plus due to the current global recession and upcoming expected political turmoil due to national election.

The major criteria for assessing the

creditworthiness of an SME customer is strong cash inflow and the stability of the business. Taking a mortgage is ensuring safety in case of default but the good cash inflow gives the security of the loan repayment. As the SME customers are not well guided therefore following strategies can be taken to manage the credit risk:

- Stay in close contact of the customer to monitor and guide them regarding the financial aspects
- Ensure the source of cash inflow of the customer is stable, diversified sources will increase the stability
- Investigate the purpose and utilisation of the fund tactfully
- Sound knowledge of the borrower to run the business and ability to take the proper decision in adverse situation may reduce the credit risk

### What further policy support could the government provide to banks in terms of SME loan disbursement? What could help improve SMEs gain better access to finance?

Based on the situation the government is circulating the policies to support the SME customer from

SEE PAGE 17 COL 1

# 'Unregistered SMEs need to be brought under umbrella of banking'

## TBS REPORT

In 2018, City Bank began focusing on the rising CMSME sector through a decentralised banking system. **The Business Standard** spoke to **Kamrul Mehedi**, Head of Small and Microfinance at City Bank Limited, to gain better insight into the sector

### What does your bank aim to achieve with its SME Loans? Have SME loans been profitable for your organisation? How big is your SME Loan portfolio at present?

The City Bank has proven its pioneering stance in the banking industry by providing a wide array of banking products to each and every possible segment of the economy. The bank has been catering to the SME market with its robust network of branches, sub-branches, agents and digital capabilities for a long time.

In 2018, the bank started to focus on the rising Cottage, Micro and Small Enterprises (CMSE) through a decentralised banking system which largely depends on the door-to-door services model. Since then, the SME portfolio experienced a big increase in growth with an asset size of Tk3,600 crore to date by reaching 30,000 small enterprises all around the country. The segment has been very profitable for the bank.

### What businesses in the SME sector have good potential for growth?

All industries or sectors have chains of SMEs to support their supply chain and reach the optimum population of Bangladesh. Generally, the sectors which are linked to thrust sectors or export-earning sectors of Bangladesh have bet-



KAMRUL MEHEDI

ter potential to grow in the future. If we talk about the local market, the most attractive sectors in the SME segment can be - light engineering, FMCG retailers, pharmacies, local textiles, home fabrics, agro products, groceries, remittance beneficiaries and construction materials businesses.

### How would you say SME banking is different from corporate banking?

Unlike conventional corporate customers, SMEs fall short of financial tidiness in book-keeping, lack the capacity for providing collateral and have heavy reflections in bank transactions. Mostly, the SMEs are driven by cash transactions, local reputations, book-keeping on a daily basis and sole proprietorship of nature. SME customers barely visit bank branches to apply for a loan or other services. Their demand for loans comes instantly.

**In Bangladesh, there is a significant portion of unregistered SME businesses which need to be dragged under the banking umbrella to grow further. The contribution of SMEs to our GDP can be more if banks extend their digital capabilities to reach remote customers. We have to remember that digital banking can bring more unbanked customers with huge potential.**

To serve the SME market, banks need to deploy a field force to go to the customers and complete the formalities on the spot. The banks need to maintain the shortest possible time between loan application and loan disbursements, which would serve the needs of SME customers.

After providing loans, bank officials need to ensure fund utilisation by visiting and keeping in touch with the customers more frequently than other customer segments. Since most SMEs avail collateral-free loans, traditional credit assessment would not be adequate, customers' behaviour, willingness to pay, history, real cash flows, feedback from customers' stakeholders and family background should be checked thoroughly to minimise the default risk.

### What are the typical banking products and services offered specifically for SMEs? How many SME Products does your bank offer?

The City Bank offers unsecured or collateral-free term loans to SMEs, especially the small segment. As most small entrepreneurs lack the capacity to provide adequate collateral to the banks, availing of unsecured term loans gives them the comfort to access finance and repay comfortably. The City Bank also offers overdrafts and single-installment loans to small businesses based on their operating cycle. It also offers small loans to beneficiaries of remittance, 95% of which are women entrepreneurs in semi-rural and rural areas. At present, a small entrepreneur can get Tk1.5 crore without any collateral.

### What is the rate of default loans from the SME sector in Bangladesh? How do the banks assess a SME's creditworthiness and what are the effective strategies for managing credit risk?

Determining the creditworthiness of SME customers is different from conventional ones. As I said, SMEs are very dynamic when it comes to credit assessment. The credit analysts conduct an underlying psychometric analysis of the customer while assessing the loan. Different banks use various yardsticks or scoring models to determine the financial and behavioural

aspects of a SME customer.

Multiple check-posts with robust surveillance from loan origination to collections need to be in place. The banks which always have a special focus on SME lending need to be adaptive and capable of identifying financial hazards way ahead of any default. An early alert system for SMEs should be different from conventional customers and be pragmatic and responsive.

### What further policy support could the government provide to banks in terms of SME loan disbursement?

During the pandemic, Bangladesh Bank implemented stimulus funds for SMEs which helped re-accelerate lost opportunities. Further policy support for this sector would undoubtedly bring benefits. If the support during the pandemic had not been provided, the SME scenario could have been devastated.

Since the major SMEs in Bangladesh are involved in trading or merchant businesses, governments can extend this particular segment to strengthen their financial shock absorption. New research should be conducted to find out what needs to be done immediately. Policy support to identify good borrowers and extend facilities to them would promote good governance in the ecosystem.

### What do you think is holding SMEs back in our country?

As per research conducted in 2016, Bangladesh has 8 million SME establishments, out of which nearly 1 million have been served by the banks. Still, banks need to go to remote locations to bring the untapped markets to the banking channel. In India, there are 42.5 million SMEs out of which 40% are in the export-earning sectors thus entailing the growth of the SMEs.

In Bangladesh, there is a significant portion of unregistered SME businesses which need to be dragged under the banking umbrella to grow further. The contribution of SMEs to our GDP can be more if banks extend their digital capabilities to reach remote customers. We have to remember that digital banking can bring more unbanked customers with huge potential.

# LankaBangla to offer up to Tk35 lakh SME loans through digital platform

SAKHAWAT PRINCE

In a recent interview with **The Business Standard**, Kamruzzaman Khan, executive vice president and SME head of LankaBangla Finance, spoke about the company's future plans for its SME portfolio and how it plans to facilitate small businesses

LankaBangla Finance, one of the top NBFIs in the country, has had focus on corporate lending since its inception. But in the past decade, it has brought about an incredible transformation in SME loans. Currently, the company is disbursing loans of more than Tk150 crore per month through 10 popular SME loan products.

At present, the institute allows loans of Tk5 lakh through its digital platform. But it has created a new 'platform', which will start from August, through which loans of up to Tk35 lakh can be availed digitally. Kamruzzaman Khan, executive vice president and SME head of LankaBangla Finance, spoke to TBS Staff Correspondent Sakhawat Prince about the company's

future plans for the SME sector.

## How has LankaBangla been performing in the SME sector?

Our journey in the SME sector started in 2014. And I too started my journey in this institution at the beginning of the year. At that time, the SME portfolio was worth only Tk29 crore or Tk30 crore. At present, the loans in this sector are about Tk2,200 crore, which is 33% of the total debt. We have a loan portfolio of Tk6,200 crore, where SME loans make up one-third the amount.

## What was the reason behind LankaBangla shifting its focus to SME loans from corporate ones?

LankaBangla has had a corporate finance focus since its inception. However, the board decided on increasing the SME loan after giving it a lot of thought. At present, there are about 300 employees, including me, in this sector who only look after SME loans. Last year, we disbursed loans of around Tk1,600 crore. There was some slow-down in business in 2020-21 due to Covid-19. However, from 2017 to 2019, a huge amount of our loans were distributed to SMEs.

We are disbursing an average of Tk150 crore in loans every month. The reason for venturing into SMEs is that Bangladesh's economy has changed. The more you invest in one sector, in this case the corporate sector, the more risk you have to incur. Since 2010, the government, the Bangladesh Bank, and economists have encouraged businesses to give special importance to SMEs.

About 70% of Japan's economy is

made up of SMEs. And these businesses contribute 87% to its national GDP. Besides, developed countries are also focusing on SMEs. Bangladesh is also thinking the same. The management of our organisation thought that when corporate lending is becoming risky, there is a need to diversify the investments in different directions, and hence the importance being given to SMEs.

Another big advantage for SMEs is employment generation. A refinance scheme is available from the Bangladesh Bank. And if you think about the GDP, contributing a little to it is also one of the reasons why LankaBangla is focused on this sector.

## What challenges do you have to face in disbursing SME loans?

SME loans require a lot of monitoring. A corporate loan of Tk100 crore can be given to one person, but when it comes to SMEs, Tk100 crore must be paid to at least a thousand customers. In that case, you need to monitor more. As a result, you will need more employees, and digitisation will also increase your costs. Recently, the Bangladesh Bank has increased the SME loan interest rate by 1% as a supervisory charge. But SME loan interest rates should have been much higher.

## How challenging is it to collect SME loan payments?

The business model for SME loans is different compared to other sectors. If you want to do business with them, it has to be relationship-based. What is the best relationship? There must be good communication between loan disbursers and



KAMRUZZAMAN KHAN

the customers.

There is a high level of non-performing loans in our sector because one person is giving the loan, while someone else is monitoring. And there are problems in the lending process as well. If the loan is to be collected, there will be a supervisor who will do the monitoring. The proposal will be verified from the start, it may be through a third party. Although we see that one lends the money, another person monitors, while someone else collects the money. This process needs to be streamlined.

## Your performance in SME loans is better than the target set by the central bank. So, what is your future target?

We want SME loans to make up close to 50% of our loan portfolio, which is currently 33% of total loans. At present, we have Tk2,200 crore in loans to 10,000 SME customers. By the year 2026, the loans will go up to Tk3,000 crore to 15,000 customers. Our target is that by 2026, we will have 35-37% total SME lending.

## What is LankaBangla's role in facilitating women SME entrepreneurs?

There is a separate platform for LankaBangla's women entrepreneurs called Shikha. Through this platform, we are not only giving them loans, but also encouraging them to become entrepreneurs.

Training on financial literacy and digitalisation are also being offered to them. Recently, many online-based entrepreneurs have been created who have Facebook-based businesses. The central bank has a target of 15% loans to women entrepreneurs, but we currently have around 7%. We have given loans to around 800 women entrepreneurs in the last year.

## How have you eased the process of availing SME loans from LankaBangla?

We are moving towards digital application forms for lending so that a customer can go online and apply easily. For that, some basic documents are required: entrepreneurs must have a trade licence and NID. There is no need to provide TIN certificates for loans up to Tk5 lakh. We do not ask for too many documents.

## How many digital loan products do you have for SMEs?

We have started

SEE PAGE 17 COL 1

# Women's entrepreneurship on the rise, but market access remains a challenge

TBS REPORT

They sell their products to big corporate organisations or await the opportunity to participate in fairs

While women's entrepreneurship in the small and medium enterprises (SME) sector has gained momentum in the country, market access for their products remains a significant challenge.

Due to limited capital investment, women entrepreneurs primarily rely on selling their products at festival-oriented fairs. Constrained financial resources often prevent them from reaching a wider customer base through traditional shops or outlets.

Consequently, these women entrepreneurs have turned to social media platforms as a means of selling their products. They sell their products to big corporate organisations or await the opportunity to participate in fairs where they can showcase and sell their products.

However, the arrangement of fairs has significantly declined since the onset of the Covid-19 pandemic. Typically, fairs for entrepreneurs are organised by the SME Foundation, the Bangladesh Small and Cottage Industries Corporation (BSCIC), or various government ministries.

Presently, a growing number of women entrepreneurs are entering the business world with limited capital investments and employing one or two individuals. The majority of these women are active in the fashion and home textile sectors.

Entrepreneurs acknowledge that while there are challenges in accessing capital, the situation has improved to some extent due to the government's and various organisations' increased support and recognition of women in business.

However, many women entrepreneurs still face difficulties in obtaining loans because they struggle with the process of submitting the necessary documents required for easy and low-interest loans. Those who are able to navigate the process successfully are able to secure loans.

According to the SME Foundation, women's involvement in business has

*"Although we manufacture products, we face challenges in finding adequate sales outlets. Previously, our products were primarily sold at fairs. Unfortunately, the decline in fair activities has resulted in reduced sales opportunities."*

\*\*\*\*\*  
MARYAM NARGIS  
FOUNDER, TWINKLE CRAFT

been steadily increasing since the beginning of the pandemic, despite previously low rates of entrepreneurship.

Recently, many women are now interested in entrepreneurship seeing the active participation

SEE PAGE 22 COL 1



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নিরাপদে থাকুন”**

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# SME Policy 2019 Many things proposed, few implemented

RAFIQUL ISLAM

Eleven strategic goals have been set in the five-year policy, which is scheduled to end in June 2024, but most of them are yet to be realised

The government formulated the SME Policy 2019 for sustainable development of small and medium enterprises, but has so far implemented very little of it.

People involved with the policy said short, medium and long-term plans have been proposed in the Policy, but they have mostly not been implemented due to “lack of allocation of funds”.

Some work has been done in line with the policy, such as facilitating access to finance for small and medium entrepreneurs, providing training for skill development, organising product fairs, giving importance to women entrepreneurs, and creating cluster-based entrepreneurship.

But important issues like connecting

small entrepreneurs to large scale industries, creating backward and forward linkages, and making it obligatory for government institutions to purchase SME products or services, are yet to be implemented.

The plan to buy goods and services from small and medium entrepreneurs under government procurement requires amendment in the public-private partnership system. The Industries Ministry and the Central Procurement Technical Unit are implementing agencies of this initiative, but they have not taken any decision regarding the issue, even though four years have passed since the policy was adopted.

There were also plans to allocate funds to reorganise and strengthen the Bangladesh Small and Cottage Industries Corporation, and expand and strengthen the SME Foundation's activities by setting up offices at the division and district levels, but those plans have not been implemented.

The Export Promotion Bureau was tasked with carrying out regular SME surveys through Bangladesh Bureau of Statistics, inclusion of small and medium businesses in economic census, and disaggregation of the small and medium enterprise sector's contribution to exports.

A separate report on the export of the small and the medium enterprises has not yet been prepared or published. In the absence of a census, the number of such enterprises has not been definitively counted. As a result, the plans are being prepared based on 2013 statistics.

The SME Policy 2019 focused on creating a conducive environment for small and medium businesses, building sustainable and efficient institutions, and ensuring access to financial and business support to disadvantaged and underprivileged, but promising entrepreneurs.

The policy also emphasised the adoption of cluster-based development strategy for small and businesses, human resource development, business development services, access to financing facilities, technology development, and ensuring opportunities for all by simplifying laws, regulations and administrative activities.

Eleven strategic goals have been set in the five-year policy, which is scheduled to end in June 2024, but most of them are yet to be realised.

The SME Foundation, the Bangladesh Small and Cottage Industries Corporation and other trade bodies are considered policy implementing organisations, but their

progress in this regard is poor.

Officials of these two organisations admitted there has not been as much progress in implementing the policy, and blamed the lack of allocation of funds for it.

They also claimed they have been fulfilling the responsibilities prescribed in the policy that are within their capacity, but were not able to implement the plans that required coordination with other organisations.

The government formulated a SME Policy for the first time in 2005 with the aim of creating a supportive environment for the development of the small and medium enterprise sector in the country.

In the National Industrial Policy formulated in 2016, a specific and time-based development plan is promised for the proper implementation of the SME Policy.

According to the SME Policy formulated in 2019, the highest forum for the development of this sector is the National SME Development Council, which consists of 18 ministries and government institutions, and is chaired by the industries minister.

A National SME Task Force has also been formed, with 28 members, including representatives from various government agencies and the SME sector.

Industries Minister Nurul Majid Mah-

mud Humayun could not be reached over phone for comments on the slow implementation of the SME Policy.

A member of the National SME Task Force told TBS on condition of anonymity that practically no major policy has been implemented, except for a couple of plans. The measures that have been implemented could have been executed by the Bangladesh Small and Cottage Industries Corporation and SME Foundation themselves.

“The government talks about the development of small and medium enterprises, but does not give much importance to it in reality. Such a beautiful policy has been formulated, but nothing has materialised. If this policy is implemented, the country's small and medium business sector will develop tremendously,” he said.

“There has been talk of imposing an obligation on government organisations to procure goods from small and medium businesses, which would have benefited the small entrepreneurs, because in recent times they have not been able to sell their products. If the plan had been realised, many entrepreneurs could have sold their products, but it has not yet been implemented due to bureaucratic complications,” he added.



PHOTO: TBS

## Women's entrepreneurship

CONTINUED FROM PAGE 21

of other women in various training programmes, fairs, and entrepreneurship development initiatives organised by the foundation.

The SME Foundation is taking special care of women entrepreneurs. So far, the foundation has provided various services to about 50,000 women entrepreneurs. Among them, 15,000 women entrepreneurs were trained in trade through 500 specialised trainings, free-lance training was given to 3,000 women and buyer-seller meetings were organised for 500 women entrepreneurs.

The foundation has distributed 30% of the government's incentive of Tk300 crore to women entrepreneurs. Meanwhile, according to Bangladesh Bank's guidelines, about 15% of SME loans have been allocated for women entrepreneurs.

The SME Foundation is actively prioritising the support of women entrepreneurs, offering a range of services to around 50,000 women in this sector. Out of this group, 15,000 women entrepreneurs have received specialised training through 500 dedicated training sessions.

**Presently, a growing number of women entrepreneurs are entering the business world with limited capital investments and employing one or two individuals. The majority of these women are active in the fashion and home textile sectors.**

Additionally, 3,000 women have benefited from freelance training opportunities, while 500 women entrepreneurs have participated in buyer-seller conferences.

Moreover, the foundation has ensured that 30% of the government's Tk300 crore incentive has been distributed to women entrepreneurs. According to the guidelines set by the Bangladesh Bank, around 15% of SME loans have been specifically allocated to support the women entrepreneurs.

According to the 2013 economic census, the total number of the industrial unit in the country is 78,18,565 and out of which, 68,42,884 are cottage enterprises, 1,04,007 micro, 8,59,318 are small, 7,106 medium and only 5,250 are large.

Of them, 5,63,368 are female-led enterprises and 37,349 are female-led SMEs. Another economic census will be conducted in 2023 and it is expected that the number of industrial units will be much more now.

The contribution of SMEs to GDP is over 25% (total industrial contribution is about 36%) and

the total employment in SMEs is about 80% of total industrial employment (24 million).

Maryam Nargis embarked on her entrepreneurial journey 12 years ago when she founded Twinkle Craft, a small business specialising in the production and sale of Nakshi Kantha (embroidered quilt), with an initial investment of Tk5,000.

Over time, her business has expanded, now employing nine permanent staff members and involving a total investment of around Tk60 lakhs. With the help of women from her village, she creates Nakshi Kanchas and sells them.

She told The Business Standard, “Although we manufacture products, we face challenges in finding adequate sales outlets. Previously, our products were primarily sold at fairs. Unfortunately, the decline in fair activities has resulted in reduced sales opportunities.”

As the president of the Jashore Nakshi Kantha Association, Maryam Nargis reveals that the association comprises around 10,000 women entrepreneurs, many of whom have recently started their businesses.

“While the number of businesses and entrepreneurs is growing, the lack of a viable market to sell their products remains a significant hurdle for these women,” she said.

She also emphasises the untapped market potential for Nakshi Kantha abroad, which unfortunately remains beyond their reach.

She highlights that when they participate in international fairs with their products, they receive positive responses. However, attracting foreign buyers to Bangladesh poses a challenge, and she believes that the government and other institutions need to provide support in this regard.

Maryam Nargis sheds light on one of the biggest barriers faced by women when they venture into entrepreneurship—the social barrier.

She explains that many women encounter resistance and criticism when they decide to start their own businesses. However, she personally overcame such obstacles by carefully considering all aspects before taking the leap, and now her business is thriving.

She further emphasises that the experiences of women in becoming entrepreneurs are often similar, as societal acceptance is not easily granted.

“Nonetheless, an increasing number of women are defying societal norms and embracing entrepreneurship, which is making a notable contribution to the country's economy,” she said.

Muhammad Masudur Rahman, assistant general manager of the women development wing at the SME Foundation, explains their efforts to address the challenges faced by women entrepreneurs.

“We are focusing on providing training programmes aimed at enhancing the quality of products produced by women,” he said.

He also acknowledges that women encounter certain complexities when seeking loans, and to mitigate these challenges, the foundation maintains regular monitoring and collaboration with banks to find effective solutions.

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# 'SME lending brought us better interest spreads'

## TBS REPORT

In an interview with **The Business Standard**, **Sanjib Kumar Dey**, Divisional Head of SME and Agri Banking at Mutual Trust Bank (MTB), talks about the bank's achievements in the SME lending sector and its future plans

**What does your bank aim to achieve with its SME loans? Have SME loans been profitable for your organisation? How big is your SME loan portfolio at present?**

MTB plans to have SME loans as 25% of its total loan portfolio. This indicates a strong commitment to support SME business in their growth and developments.

We aim to maintain a low classified portfolio for SME loans. This means that MTB intends to minimise NPLs, which ensures that the loans provided to SMEs are of good quality and have a higher likelihood of being repaid.

MTB's focus on loan diversification is a crucial risk management strategy that enables us to balance the bank's exposure, enhance financial stability and support the economic growth of different sectors and businesses.

SME loans have been profitable for the organisation. These loans have a better spread compared to other types of loans, indicating that they generate higher profits for the bank. Our SME loan portfolio is currently worth Tk2,688.81 crore, which constitutes 11.79% of our total loan portfolio.

**What businesses in the SME sector have good potential for growth?**

The SME sector has good potential for growth in the following types of businesses:

**Service sector:** The demand for various services continue to increase as the economy develops and consumer preferences evolve.

**Small and marginal business:** Small and marginal businesses, particularly those operating in niche markets or catering to specific customer needs, have the potential for rapid growth.

**Export-oriented business:** Exporting products or services to international markets can experience substantial growth opportunities. Expanding beyond domestic borders allows them to tap into larger customer bases and benefits from the global demand for their offerings.

**Import substitute business:** Such businesses contribute to import substitution, leading to economic self-sufficiency and potential expansion.

**How has MTB fared in the SME financing sector so far?**

SME banking has given us the following results:

**Better spreads:** We have experienced better interest rate spreads, which means the difference between the interest rate at which we lend to SMEs and the rate at which we acquire funds from depositors or other sources is favourable. This has contributed positively to our profitability.

**Fund diversification:** SME banking has allowed us to diversify our loan portfolio by catering to the divergent financing needs of thousands of small scale SMEs. This diversification reduces the risk associated with concentration in specific sectors or types of borrowers.

**Low-cost deposits:** SME banking often attracts a huge number of small businesses as depositors, offering a source of low-cost funds for the bank. These deposits can be stable and contribute to our ability to lend at competitive rates.

**High classifications of total loans:** One of the challenges in SME banking is the risk of loans becoming NPL due to factors like low resilience during downturns or business-specific issues. This can lead to high loan classification ratios.

**Managing difficulties:** SME borrowers generally do not maintain proper documents and are not well structured. So, shoe leather cost against SMEs is comparatively high.

**How would you say SME banking**

**is different from traditional corporate banking?**

SME banking differs from traditional corporate banking in several ways:

**Versatile business:** SMEs often have diverse and flexible business models. They may operate in various industries and their financial needs can vary significantly.

**No black and white financials:** SMEs may not always have well-established and clear-cut financial statements or credit histories. Unlike large corporations that typically provide comprehensive financial data, SMEs might have financials that are not as straightforward, making it more challenging for banks to assess their creditworthiness.

**Lack of documentation:** SMEs generally don't maintain extensive documentation, especially in comparison to larger corporations that are often required by banks to assess their credit worthiness.

**Multiple aims:** SME clients aren't foresighted for long term vision. They want to be rich quickly. This shortcut approach kills them, often jeopardising the loans of banks.

**Less structured:** SMEs are generally less structured in their operations compared to large corporations, which often have well-defined hierarchies and governance structures. This can impact how banks engage with SMEs and may require more personalised and hands-on approaches to understand their needs and risks.

**What are the typical banking products and services offered specifically for SMEs? How many SME loan products does your bank offer? In your opinion, which financial products are most crucial for SMEs, and why?**

For SMEs, banks typically offer a range of specialised banking products and services tailored to their unique needs. These offerings aim to support SMEs in their financial operations and growth.

**Term loans:** These are loans with a fixed repayment period and regular instalments. SMEs often use term loans for capital investment, purchasing equipment, or expanding their operations.

**Demand loans:** Demand loans are loans that must be repaid upon the lender's request. They offer flexibility in repayment and can be useful for managing short-term financial needs.

**Continuous loans:** Continuous loans, also known as revolving credit or overdrafts, provide SMEs with a pre-approved credit limit. They can withdraw funds up to this limit whenever needed and repay the borrowed amount as per the agreed terms.

**CASA:** Current accounts are transactional accounts that allow SMEs to perform frequent deposits and withdrawals for their day-to-day business operations. CASA deposits are essential for maintaining liquidity and providing a stable funding base for the bank.

**SME loan products offered by Mutual Trust Bank:**

**MTB Small Business Loan:** This loan offers collateral-free financing for CMSME customers, with a maximum loan amount of up to 50 lacs.

**MTB Small Business Loan Plus (SBL+):** Similar to the MTB Small Business Loan, this product also provides collateral-free financing, but with a higher loan limit of up to 1.00 crore.

**MTB Surokha:** This loan product requires collateral as security for the loan. It offers financing options for CMSME customers with valuable assets to pledge as collateral.

**MTB Abashon:** This loan is financing for construction/renovation/expansion of commercial property for renting purpose

**MTB Mausumi:** This loan is designed as a short-term seasonal loan, likely to assist CMSME customers with temporary financial needs arising during specific seasons or periods.

**MTB AVA:** This loan product is dedicated exclusively to women entrepreneurs, aiming to support and empower them in their business ventures.

**MTB Startup Loan:** This loan is specifically aimed at supporting and enabling easy access to finance for building startups, facilitating their growth and establishment.

**Supply chain finance:** The bank provides both factoring and dealer finance services through supply chain finance, ensuring smooth and efficient financing solutions for businesses involved in supply chains.

One of the most crucial financial products for SMEs is the term loan with



SANJIB KUMAR DEY



**MTB's focus on loan diversification is a crucial risk management strategy that enables us to balance the bank's exposure, enhance financial stability and support the economic growth of different sectors and businesses. SME loans have been profitable for the organisation. These loans have a better spread compared to other types of loans, indicating that they generate higher profits for the bank. Our SME loan portfolio is currently worth Tk2,688.81 crore, which constitutes 11.79% of our total loan portfolio.**

a short tenor, typically ranging from 18 months to 24 months. There are several reasons why these financial products essential for SMEs:

**Access to capital:** Term loans provide SMEs with much-needed access to capital to finance their business operations, expansion plans, or investment in assets.

**Working capital management:** Short-term term loans can help SMEs manage their working capital efficiently.

**Asset expansion:** The term loan can be utilized to acquire or upgrade assets, such as machinery, equipment, or technology, which are essential for enhancing the productivity and competitiveness of the SME.

**Loan downsizing:** SME grows and generates more revenue, it becomes feasible for them to repay the loan within a shorter tenor.

**Credit building:** Repaying short-term term loans can improve the creditworthiness of the SME.

**Risk mitigation:** Short-term term loans generally carry less risk compared to long-term loans. For both the lender and the SME, this reduces exposure to potential economic fluctuations and uncertainties. Overall, short-term term loans play a crucial role in supporting SMEs by providing quick access to capital, facilitating growth, asset expansion and promoting financial discipline through loan downsizing.

**What is the rate of default loans from the SME sector in Bangladesh? How do banks assess the creditworthiness of SMEs and what are some effective strategies for managing credit risk in SME banking?**

The SME sector has default loans of 14.16% so far.

MTB typically assessment the creditworthiness of SMEs using the following methods:

**Historical Repayment:** Banks analyse the SMEs past credit history and repayment behaviour to determine its creditworthiness. They look at how the SME has managed its previous loans and credit facilities, whether it made timely repayments, and if there were any instances of defaults or delinquencies.

**Projected growth:** Banks assess the SME's future growth prospects and potential for generating revenue. This involves evaluating the company's business plan, market analysis, and expansion strategies. **Financial Statements:** Banks also review the SMEs financial statements, including balance sheets, income statements, and cash flow statements. These documents provide insights into the company's financial health, profitability, and liquidity.

**Collateral or security:** Banks may require SMEs to provide collateral or security for the loan. Assets such as property, inventory, or accounts receivable can

act as a safety net for the bank in case of default. The value and quality of the collateral can influence the terms and conditions of the loan.

**Credit rating:** Banks may use credit scores and ratings from credit bureaus as part of their assessment. A good credit score indicates a lower credit risk, while a poor score may lead to higher interest rates or loan rejection. **Business Experience and Management:** The experience and capabilities of the SMEs management team are also assessed. A well-experienced and skilled team is more likely to manage the business efficiently and repay loans responsibly.

**Effective credit risk management** is crucial in SME banking to mitigate potential losses and maintain a healthy loan portfolio. MTB expand on some strategies that are generally effective in managing credit risk for SME loans:

**Credit assessment:** This should include analysing their financial statements, business plans, cash flow projections, and past credit history. **Collateral and Guarantees:** SME borrowers to provide collateral or guarantees as additional security for the loans. This reduces the risk exposure for the bank and provides a fallback option in case of default.

**Loan diversification:** Avoid concentration risk by diversifying the SME loan portfolio across various industries and sectors. Overexposure to a single industry can lead to higher risk if that sector experiences a downturn. **Credit Risk Policies:** Establish clear credit risk policies and guidelines for SME lending. These should include maximum exposure limits, risk acceptance criteria, and procedures for loan restructuring and recovery.

**Effective loan recovery:** Have a well-defined loan recovery process in place to deal with defaulting borrowers. This should involve a structured approach to negotiate repayment terms or initiate legal actions if necessary. By following these strategies and maintaining a proactive approach to credit risk management, banks can enhance the overall health of their SME loan portfolio and promote sustainable growth for both the SME sector and the financial institution.

**The SME sector accounts for over 50% of the GDP in most of the developed countries in the world. The ratio is 60% in neighbouring India, and 45% in Vietnam. In our country, however, SMEs constitute 25% to 27% of the GDP, although the sector holds 80% of total industrial jobs. What do you think is holding SMEs back in our country?**

I disagree on this one, as definitions in all countries aren't the same. But still we can say our contribution is low. There could be several factors holding back the growth and development of SMEs in your country. Let's explore the points:

**Mindset:** The mindset of entrepreneurs and policymakers plays a crucial role in the success of SMEs. In some cases, there might be a prevailing belief that starting or expanding small businesses is risky or not as rewarding as pursuing other opportunities. This mindset could discourage potential entrepreneurs from taking the leap and hinder the growth of SMEs.

**Predictable risk:** SMEs often face a higher level of risk compared to larger, more established businesses. This risk can stem from various factors such as market volatility, economic fluctuations, lack of access to finance, or limited resources to weather uncertainties. If the risk is perceived as too unpredictable or if there is inadequate support in managing it, it can deter potential SME owners from pursuing their ventures or expanding their existing businesses.

**Lack of support:** Support from the government, financial institutions and family is crucial for the growth of SMEs. Access to funding, favourable policies, and tailored support programs can make a significant difference in the success of small businesses. If there is a lack of such support in our country, it could be a major factor holding back the growth of SMEs.

**Lack of access to information:** Access to information is vital for SMEs to make informed decisions, identify growth opportunities, and stay competitive. A lack of access to reliable information, market data and industry trends could hinder the ability of SMEs to innovate, expand, and adapt to changing market conditions.

# ‘By 2024, 25% of loans will be disbursed to CMSME sector’

## TBS REPORT

National Bank Executive Vice President and Divisional Head Md Sahidul Islam recently spoke to **The Business Standard** about various plans of the bank for its SME portfolio

National Bank Limited has organised its loan distribution program with the greatest importance allocated for the SME sector. The bank has set a target of providing 25% of total loans disbursed to cottage, micro, small and medium (CMSME) entrepreneurs by 2024.

The bank's Executive Vice President and Divisional Head Md Sahidul Islam recently spoke to **The Business Standard** about various plans of the bank for its SME portfolio.

### What steps have you taken to develop the CMSME sector?

Currently our main focus is to help CMSMEs grow. Our management has a strategic plan to develop CMSMEs as these businesses are the lifeline of the economy. CMSME sector contribution to the GDP is 60% in China, 70% in Japan, 52% in Sri Lanka, 48% in South Korea, 40% in Pakistan, but only 26% in Bangladesh. We are working to increase this number.

At present, 12% of our total loan disbursement portfolio – which is worth Tk5,350 crore – is in the CMSME sector. Our target is to disburse 25% of the total portfolio to this sector.

There are around 75 lakh CMSMEs in Bangladesh. We are serving maybe 10,000 from there. There are still many who can be brought under our service.

We are increasing the loan limit and tailoring our loan offerings to suit the specific needs of our buyers. By understanding their requirements, we ensure that the loans provided are well-suited to their circumstances.

Additionally, we are actively developing new products, including digitising our monitoring and loan approval processes. We are also introducing a relationship manager (RM) system. This approach involves receiving proposals from buyers after a thorough analysis of their needs. Our relationship managers will maintain constant communication with customers, ensuring a personalised and attentive experience throughout their loan journey.

We also prioritise the continuous training of our officers as part of our dedication to fostering the growth of the CMSME sector.

Since November of last year, we have been actively visiting various regions, including North Bengal, where we covered 28 branches. During these visits, we engaged in valuable conversations with our customers, seeking to understand their needs better. Our commitment extends beyond the northern region, as we plan to visit every area.

To facilitate this commitment, we will be organising conferences and management-led training sessions in these regions to ensure our teams are well-equipped and informed.

### Does the bank have provisions in place to offer specialised facilities for CMSME customers?

At each branch, there is a dedicated desk for CMSME aspirants. We actively seek



MD SAHIDUL ISLAM

feedback from our customers to understand their specific needs and preferences. This feedback helps us identify the type of services required, as well as any potential demand for new products. Additionally, we use this feedback to pinpoint areas where we can enhance our service delivery.

Based on the valuable input received from our customers, we are in the process of formulating new policies that will propel the growth and development of the CMSME sector.

**We are increasing the loan limit and tailoring our loan offerings to suit the specific needs of our buyers. By understanding their requirements, we ensure that the loans provided are well-suited to their circumstances.**

### Are there any specific measures being implemented to cater to the needs of micro and small entrepreneurs?

To enhance consumer awareness, we are conducting open meetings at the village level. During these gatherings, we provide valuable information to potential borrowers about the necessary documents and details required to obtain a loan. We also guide them on maintaining proper transaction records, which enables us to assess their business financing needs accurately.

Furthermore, we have specific loan parameters in place to determine the eligible loan amount. Through our field-level meetings, we aim to raise awareness among activists and entrepreneurs across districts and upazilas.

### What is being done for women entrepreneurs?

Our focus is on empowering women entrepreneurs, and to that end, every branch of our bank features a dedicated desk exclusively for them. Recently, we held a meeting in collaboration with esteemed organisations like SME Foundation and Chattogram Women Chamber of Commerce and Industry to further support and uplift women entrepreneurs in their endeavours.

Engaging with various chambers, we are actively exploring opportunities for women entrepreneurs to expand their businesses. Our loan offerings will be tailored to meet their specific requirements. As part of our commitment, we have set a target to allocate 25% of our total lending to the CMSME sector by 2024. Among these entrepreneurs, our aim is to ensure that 15% are women entrepreneurs, as the current representation of CMSME women entrepreneurs stands at 8%.

## NBFI financing to SMEs thrives

### AHSAN HABIB TUHIN

The government's initiative to enhance the availability of finance for the SME sector, along with Bangladesh Bank's directives, has played a pivotal role in encouraging NBFIs to actively participate in financing small businesses

Non-Bank Financial Institutions' (NBFI) financing to small and medium enterprises (SMEs) is thriving as the demand for loans is on the rise.

In the past, SME entrepreneurs relied heavily on banks for obtaining loans. However, with the emergence of NBFIs, these entrepreneurs now have the advantage of accessing loans with greater ease and in a shorter period. This development has significantly contributed to the progress of small entrepreneurs within this sector.

The government's initiative to enhance the availability of finance for the SME sector, along with Bangladesh Bank's directives, has played a pivotal role in encouraging NBFIs to actively participate in financing small businesses.

However, sector officials highlight that the cost of funds for NBFIs is considerably higher compared to banks. Additionally, their sources of income are relatively limited in comparison. To address this, they express the need for increased participation in profitable sectors such as investing in SMEs. This necessitates access to low-interest funds and policy support to facilitate their involvement and growth in the SME sector.

At present, 35 NBFIs are operating in Bangladesh while the first one was established in 1981. Among them, IDLC Finance is in the leading position in financing the SME sector, which is followed by LankaBangla Finance, IPDC Finance and BD Finance. Others also have contributions but on a small scale.

According to Bangladesh Bank data, IDLC has a SME loan portfolio of Tk4,300 crore, LankaBangla around Tk2,200 crore, IPDC Tk2,000 crore, and BD Finance has Tk400 crore.

Adnan Rashid, Head of SME at IDLC Finance, told **The Business Standard**, "There is a huge demand for SME loans across the country. And we have relationship officers in every branch to provide easy financing and service to SME entrepreneurs. They go to entrepreneurs who are interested in taking loans and serve them. So no entrepreneurs need to come to our branch.

"We always try to disburse loans within four to five days of application. Because if you don't get the loan money on time, it is hardly useful," he said.

He added that they nurse and monitor loans all the time, which improves loan recovery.

"But we have challenges in financing this sector. One of these is that if the loan installments are not paid within six months, it becomes a default. And in case of default, 100% provision has to be kept against the loan. This increases the cost for NBFIs. Here the banks get some relaxation. We want to have equal opportunities like banks," he said.

SMEs form the backbone of Bangladesh's economy with an estimated 6 million establishments across the country according to Asian Development Bank, accounting for 25% of the country's GDP, 45% of manufacturing value addition, around 90% of industrial units, and 30% of the labour force.

According to the Bangladesh Bank data, the total financing to SMEs stands at around Tk220,500 crore in 2022, which was Tk 85,323 crore a decade ago.

The central Bank played a pivotal role in driving the NBFIs to boost their SME Portfolio. As per the instruction by Bangladesh Bank, financial institutions are bound to maintain 25% of their loan portfolio as SME lending.

Not only Bangladesh Bank, SME Foundation facilitated the SME market in numerous ways. Since 2010, SME Foundation has been implementing a special loan program called "Credit Wholesaling Power" to empower SME clusters, new entrepreneurs, rural entrepreneurs and women entrepreneurs to easily avail loans. Through various banks and financial institutions, the entrepreneurs are financed with small, collateral-free loans of 9% interest under the program.

However, the World Bank said the financing gap is severe in Asia. Bangladesh is no exception from the region having a total financing gap of \$1.28 billion. The gap is higher for the women-owned enterprises in Bangladesh, according to IDLC Finance's monthly report.

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## এমটিবি এসবিএল

এসএমই ব্যবসার জন্য জামানতবিহীন ঋণ



### আবেদনের যোগ্যতা

- ন্যূনতম ২ বছরের ব্যবসায়িক অভিজ্ঞতা
- ব্যবসার ধরণ ভেদে ব্যাংক হিসাবে লেনদেনের ২৫%-৩০% প্রতিফলন

### বৈশিষ্ট্য

- ঋণের ধরন: মেয়াদি ঋণ
- ঋণের মেয়াদ: ১ বছর থেকে ৩ বছর
- ঋণের পরিমাণ: ১০ লক্ষ থেকে ৫০ লক্ষ টাকা
- জামানতবিহীন ঋণ
- চলতি মূলধন ও ব্যবসা সম্প্রসারণ সহায়ক ঋণ
- নতুন ও অভিজ্ঞ ঋণগ্রহীতা উভয়ের জন্য ঋণের সুযোগ

বিস্তারিত তথ্য ও সহযোগিতার জন্য যোগাযোগ  
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