Micro, Small and Medium-sized Enterprises’ Access to Finance in Bangladesh
About this series

Micro, small and medium-sized enterprises (MSME) make a significant contribution to economic growth and job creation across Asia and the Pacific. However, they often encounter difficulties in accessing finance. Women-headed MSME’s are particularly underserved by financial institutions due to economic, regulatory and socio-cultural factors. In recent decades, governments and related agencies have set up mechanisms to facilitate the flow of finance. The result has been an increase in financial inclusion, but the extent to which the financing gap has been reduced is not well known.

To gain more understanding about this issue, key questions need to be addressed, including the following: Is finance still a constraint, including for certain classes of enterprises, such as medium-sized ones? What mechanisms, such as credit guarantees, collateral support, and directed credit, have been the most beneficial in closing the gap? Is there gender disparity in access to finance? And are there public and/or private sector measures to overcome any existing regulatory, normative and contextual barriers to women entrepreneurs’ equal access to finance? How have demand-side programmes, such as financial literacy, aided MSMEs? And how have FinTech and digital finance helped to increase access to finance?

To seek answers to these and other important questions, the Economic and Social Commission for Asia and the Pacific (ESCAP) developed A Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific. The Framework provided direction for the preparation of detailed national studies on MSMEs’ access to finance in selected countries of Asia and the Pacific. The studies were prepared by researchers and specialized consultants under the guidance of a lead country agency with policy responsibilities in MSME financing. In some of the studies, an advisory committee composed of representatives from departments, agencies, financial institutions, and organizations involved in MSME promotion and financing provided direction and support to the authors.

This series presents the Framework along with national studies that were prepared following its guidelines. Each national study is expected to contribute, through policy analyses and recommendations, to policy discussions on how to improve access to finance by MSMEs. The preparation of national studies based on a common framework is also expected to facilitate comparisons across countries to share experiences, identify good practices, and understand common challenges.

Some of the studies contributed to ESCAP capacity building projects. The studies for Cambodia and Nepal were funded by the United Nations Regular Programme of Technical Cooperation, and the studies for Bangladesh and Samoa were funded by the Government of Canada, through Global Affairs Canada, in the context of ESCAP’s Catalysing Women’s Entrepreneurship Programme. The preparation of these four studies benefitted from a partnership between ESCAP and the United Nations Capital Development Fund (UNCDF). The latter contributed financial support for the Nepal study through UNNATI-Access to Finance (A2F) Project funded by the Government of Denmark. In addition, the Task Force on Banking and Finance of ESCAP’s Sustainable Business Network funded a comparative study of MSME financing in Singapore and Hong Kong, China.
About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) at the request of the Bangladesh Small and Medium Enterprise Foundation. The report was prepared by Professor Sheikh Morshed Jahan, ESCAP Consultant and Associate Professor at the Institute of Business Administration at the University of Dhaka, and Katherine S. Miles, ESCAP Consultant.

This report was financially supported by ESCAP’s regional programme ‘Catalyzing Women’s Entrepreneurship,’ funded by the Government of Canada, through Global Affairs Canada. The United Nations Capital Development Fund (UNCDF), a partner of ESCAP in the production of studies on MSMEs access to finance in Asia and the Pacific, has provided technical advice.

The preparation of the report was guided by an Advisory Committee composed of Mr. Md. Safiqul Islam, Managing Director of the SME Foundation (Chair); Professor Shibli Rubayat Ul Islam, Dean of the Faculty of Business Studies, University of Dhaka; Mr. Anarul Kabir, Deputy Secretary of the Finance Division, Ministry of Finance; Ms. Lila Rashid, General Manager of the SME & Special Programmes Department, Bangladesh Bank; Mr. Md. Ashraful Alam, Country Project Coordinator, United Nations Capital Development Fund (UNCDF); Dr. Momtaz Uddin Ahmed, Professor, Department of Economics, University of Dhaka; and Mr. Mirza Nurul Ghani Shovon, President of the National Association of Small Cottage Industries of Bangladesh (NASCIB).

This research is based on both primary and secondary data. Primary data were collected through bilateral stakeholder interviews and focus group discussions with MSME finance stakeholders including at an expert group meeting. Findings were also presented and validated by an advisory committee and at a national stakeholder consultation workshop with 60+ delegates organized by ESCAP and the Government of Bangladesh and held in Dhaka on 10 December 2019.

The preparation of the report faced delays due to the fact the research and original drafting of the study was primarily undertaken prior to the COVID pandemic. This has led to an updated assessment and text due to the changing business environment and constraints facing entrepreneurs in Bangladesh.
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Abbreviations

AIF  Alternative investment funds
AFI  Alliance for Financial Inclusion
AIFM  Alternative Investment Fund managers
AML-CFT  Anti-Money Laundering & Counter Financing of Terrorism (AML-CFT)
APG  Asia/Pacific Group on Money Laundering
BB  Bangladesh Bank
BDT  Bangladeshi Taka
BFP-B  Business Finance for the Poor – Bangladesh
BSCIC  Bangladesh Small and Cottage Industries Corporation
BEZA  Bangladesh Economic Zone Authority
BIDA  Bangladesh Investment Development Authority
BSEC  Bangladesh Securities and Exchange Commission
B2P  business-to-private payments
CGF  Credit Guarantee Fund
CGS  Credit Guarantee Scheme
CIB  Credit Information Bureau
CMSME  Cottage, Micro, Small and Medium enterprises
CSM  Cottage, small and micro
CRC  Credit Rating Companies
CRISL  Credit Rating Information and Services Limited
e-KYC  electronic Know Your Customer
DWA  Department of Women Affairs
DFS  Digital Financial Service
DFID  Department for International Development
DSE  Dhaka Stock Exchange
DYD  Department of Youth Development
ESCAP  Economic and Social Commission for Asia and the Pacific
FATF  Financial Action Taskforce
GDP  Gross domestic product
G2P  government-to-private
ICC  International Chamber of Commerce
IFC  International Finance Corporation
IPO  Initial Public Offering
ISPCBs  Islami Shariah Based PCBs
KYC  Know Your Customer
LDC  Least Developed Country
LFPR  Labour Force Participation Rate
NBFI  Non-Bank Financial Institution
NGO  Non-Government Organisation
NFIS-B  National Financial Inclusion Strategy – Bangladesh
NID  National Identification Documents
NNC  NFIS-B National Council
NSC  NFIS-B Steering Committee
NIP  National Industrial Policy
MC  Ministry of Commerce
MF-CIB  Microfinance Credit Information Bureau
MFS  Mobile Financial Services
MI  Ministry of Industry
MIC Middle Income Country
MLPA Money Laundering Prevention Act
MoWCA Ministry of Women and Children Affairs
MRA Micro Credit Regulatory Authority
MoF Ministry of Finance
MFI Microfinance Institution
MSME Micro, Small and Medium Enterprises
NAC NFIS-B Advocacy Committee
NSDC National SME Development Council
P2P Private-to-private payment
PCBs Private Commercial Banks
PSP Payment Service Provider
PDBF Rural Poverty Alleviation Foundation
PKSF Palli Karma-Sahayak Foundation
SCITI Small and Cottage Industries Training Institute
SDCs Skill development centers
SMESPD SME & Special Programmes Department
SOCBs State owned Commercial Banks
SPV Special purpose vehicles
TAN The Angel’s Network
UNDP United Nations Development Program
UNCDF United Nations Capital Development Fund
UNIDROIT The International Institute for the Unification of Private Law
UNCITRAL United Nations Commission on International Trade Law
VC Venture capital

Note: Conversions from Bangladeshi Taka (BDT) to USD in the text are for illustrative purposes only. They are based on the average exchange rate for 2019-2020 published by Bangladesh Bank of BDT 84.7811 = USD 1.00.
Acknowledgments

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) would like to thank the authors of this report, Professor Sheikh Morshed Jahan and Katherine S. Miles for their comprehensive review of the Bangladesh financial context and proposed policy recommendations presented hereafter. The authors of this report would like to express their gratitude to Makshud Manik, Syeda Farzana Morshed, Mahmud H Zaman, Masrur M Haque and Rayhan Gazi from the Center for Development and Competitive Strategies Ltd. (CDCS®) for the research assistance provided in the preparation of this report.

The research was overseen by the United Nations ESCAP staff Mr. Alberto Isgut and Deanna Morris, who provided technical guidance, substantive inputs and drafting to this report. The research also benefitted from reviews and comments of Ms. Tientip Subhanij, Chief of Financing for Development, ESCAP, and expert inputs of Md. Ashraful Alam of United Nations Capital Development Fund (UNCDF) and Nazeem Sattar of SME Foundation, Bangladesh.

ESCAP would like to thank the Advisory Committee members for their valuable feedback throughout the preparation of the report, and in particular to Prof. Momtaz Uddin Ahmed of the University of Dhaka and Dr. Lila Rashid, Executive Director, Bangladesh Bank for their detailed review of the reports content. Additionally, the authors wish to acknowledge the contributions and comments from: Prof. Baqui Khalili (University of Dhaka), Dr. Monzur Hossain (BIDS), Arif Khan (IDLC), Tina Jabeen (Startup Bangladesh) and Ridma Khan (BWCCI); Md. Safiql Islam, Shaheen Anwar and Suman C. Saha (SMEF); Md. Joynal Abedin, Najnin Islam and Masato Abe.

This report was edited by Dana MacLean, and Su-Arjar Lewchalermvongs and Zhongling Wang provided effective research assistance.
Overview and key messages

Ensuring adequate access to a range of financial services for micro, small and medium-sized enterprises (MSMEs) is essential in accelerating inclusive economic growth and achieving Bangladesh’s goal of becoming a middle-income country (MIC) by 2024. Despite the importance of MSMEs, which contribute to approximately 50 per cent of the country’s industrial output and employ roughly 80 per cent of the industrial labour force,1 they remain financially constrained, with an estimated financing gap of 20 per cent of GDP.2 The worsening predicament of these enterprises due to the COVID-19 pandemic underlines the urgency to facilitate access to finance for unserved and underserved MSMEs.

This study has analysed the present situation of MSMEs’ access to finance in relation to Bangladesh’s current policy framework and gaps, including gender gaps, in the provision of financial services. It has further explored some of the key issues and barriers impacting the supply of, and demand for, MSME finance.

This study highlights the important issues of coordination and a lack of joint action between the many institutions that focus on MSME financing and development. This has in part contributed to the large MSME financing gap, and specific financing access challenges for women entrepreneurs, despite significant well-intentioned regulatory measures of Bangladesh Bank (BB) to support women entrepreneurs, transformational regulatory developments on mobile financial service (MFS) and agent banking, and efforts to stimulate the flow of venture capital. In addition, despite the proliferation of facilitation services by incumbent providers, there is still a mismatch between demand-side needs and provisions, due to an absence of analysis and tailored support, in particular, to meet women entrepreneur’s demand-side constraints to MSME financing.

With some notable exceptions, banks and non-bank financial institutions (NBFIs) are generally not meeting BB’s MSME financing expectations and the current provision of bank and equity products are not meeting MSME needs. Moreover, the existing supply-side provision beyond that provided by microfinance institutions (MFIs), is not adequately customer-centric to address the gender-specific, demand-side constraints to financing faced by women entrepreneurs.

This study, therefore, has highlighted an opportunity in the post-COVID context to leverage the new policy developments vis-à-vis the National Financial Inclusion Strategy (NFIS) and SME policy, to bring greater coordination and direction to MSME financing efforts. This is against the backdrop of increasing potential for digitalization, strengthening infrastructure and the potential for better and greater data availability to inform more targeted financial service provision to MSMEs. To unleash the potential of both women’s and men’s entrepreneurship in pursuit of the country’s economic vision and contribute to sustainable development, it provides the following recommendations to policymakers and other stakeholders:

a) Create a central coordinating agency (CCA) for MSMEs under the Ministry of Industry to enhance policy coherence.

A central coordinating agency for MSMEs can be established under the Ministry of Industry with dedicated staff and financial resources to coordinate all government agencies and private sector entities with responsibilities and mandates for MSME financing and development. The establishment of this CCA could lead to improved inter-agency efforts to co-implement a collective entrepreneurship development and MSME competitiveness agenda. Specifically, this may involve co-strategizing a

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1 UNDP, 2016.
shared MSME national strategic vision (MSME-NSV) in line with other national policies (e.g. SGD 2030, Vision 2041 and Delta Plan 2100 and the NFIS-B).

In addition to the proposed CCA, it is recommended that a new policy committee be created at the highest level of government to set up new policies and to oversee the implementation of existing policies for the MSME sector. Similar to the approach taken in Malaysia with its National Entrepreneur SME Development Council (NESDC), the proposed new policy committee would be chaired by the Prime Minister and include as members all the relevant Ministers and the Governor of Bangladesh Bank. This policy committee would use the proposed CCA as its secretariat. The leadership of the Prime Minister as Chair of the proposed policy committee would ensure that the CCA has sufficient political authority over the various constituent agencies to ensure policy coherence, as well as an effective and agile implementation of policies and programmes. An important aspect of the CCA’s work would be to promote and coordinate partnerships among different agencies to overcome problems of role overlap.

b) Incentivize the digital integration of MSMEs as an on-ramp for formalization.

MSMEs can actively be incentivized to become digitally integrated and digitalize their financial transactions – indeed COVID has sped up the need for this transformative process. The feasibility of public-private partnerships (PPP) to support the digital integration of MSMEs may be explored. A priority sector for digital integration and formalization is social media marketing, such as Facebook commerce (f-commerce). In turn, there are opportunities to pilot the development of gender-responsive alternative credit scoring mechanisms within these target segments. Another approach to achieve the goal of digital integration of MSMEs is the formalization of informal MSMEs. To enable this, it is recommended that the business formalization process is simplified, and the documentation requirements and the costs involved reduced. There is also an opportunity to enhance the MRA's national database by incorporating small and medium enterprises along with microenterprises. Furthermore, within the scope of the digitalization of lending infrastructure there is the opportunity to improve the gathering and usage of sex disaggregated data, under the new M-CIB and the upgraded CIB, to a fully-fledged credit registry.

c) Create policy incentives for financial institutions to specialize in MSME financing and the women-owned MSME segment.

There is the opportunity to build the business case for financial institutions to serve the MSME market, and in particular women-owned MSMEs, by becoming specialists in MSME financing. Building the business case can facilitate the uptake of the proposed new tailored products for the MSME market segment in line with the NFIS-B. Technical assistance can be provided to FSPs to conduct customer journey research, drawing on disaggregated customer data, to generate evidence to build the business case and inform customer-centric product development, marketing, delivery channels and customer servicing. There is additional scope to provide technical assistance to support financial institutions to improve their institutional gender policies to bolster the enabling environment for women employees, including those working on women's help desks.

d) Build the business case for financial institutions to provide tailored support to MSMEs and women entrepreneurs.

The government, BB and development partners can encourage the specialization of financial institutions to serve the MSME market. Incentivizing some FIs to specialize in MSME financing will encourage the development of institutions that commercially seek to serve the MSME and women-owned MSME market segment. This specialization will support the effective implementation of proposals identified in the SME Policy 2019 and the NFIS-B to establish tailored products and services for MSMEs. It would also confer benefits to BB, for example to prevent issues including
predatory lending to meet targets or mislabelling loans as women enterprise loans in cases in which a male family member may have decision-making power over the loan use.

BB could remove the regulatory requirement that all financial institutions have to annually meet MSME lending targets, including to women-owned enterprises. While well intentioned, the existing requirement has not delivered the intended impact of MSME development or closed the gender access to finance gap facing women entrepreneurs. A change in the regulatory requirements would provide the freedom for some FIs to specialize in and orient their value proposition towards specific MSME market segments.

To address the risk of MSMEs continuing to be underserved, incentives could be offered to FIs that specialize in lending to or solely target MSMEs and/or women-owned MSMEs. In addition, SOCB’s with a significant rural and suburban presence and SBs with a sector-specific mandate could still be required to meet MSME portfolio targets as they have a stronger footprint than PCB’s and NBFIs in these areas. Likewise, non-scheduled banks may also be incentivized to fund rural MSEs at the base of the pyramid which lack access to private banks.

e) Build the capacity of MSME promotion and business development support (BDS) agencies to provide more tailored support to MSMEs and women entrepreneurs.

There is scope to build IT-enabled incubation service provision in different geographical regions within Bangladesh. This will address the fact that a large number of MSME applicants are not finance-ready and require BDS on business registration, taxation, trade licenses, financial record keeping, business plan development, plus awareness raising on equity investments and other financing options. There is an opportunity to build the capacity of existing incubators, as well as shape the newly established Start Up Bangladesh to ensure their incubation and investment business models address women’s entrepreneurs’ gender and business sector specific needs to overcome the constraints to MSME financing and BDS. Incubation or acceleration support can be tailored to specific economic sectors such as women-owned f-commerce ventures. Moreover, initiatives to support incubators can support women entrepreneurs to establish or scale fintech enterprises in line with NFIS-B priority 6: to upscale digital financial services and fintech. Women-only incubation initiatives that address women’s significant mobility constraints and access to technology and other gender-specific BDS needs will be encouraged.

f) Promote alternative finance and gender lens investing.

Small cap equity, venture capital, crowdfunding and angel investment have significant potential to flourish in Bangladesh. Yet on the supply-side, there is a need to raise awareness among equity investors/ VC firms on the commercial case to extend venture capital specifically to women entrepreneurs. In doing so, there is scope to build awareness of the what and why of gender-lens investing and how investors can apply such a lens to both their commercial and impact investments. In doing so, it will be important to note that there are a variety of criteria and gender-lens investing strategies that can be applied: for example, a focus on women-owned enterprises; businesses that seek to deliver products and services to women and girls or that advance gender equality; and/or that incorporate a focus on advancing women’s participation in their workforce. As part of this there is a need to generate an action plan to stimulate the gender-lens investing ecosystem in Bangladesh.
Introduction

Ensuring adequate access to a range of financial services for micro, small and medium-sized enterprises (MSMEs) is essential in accelerating inclusive economic growth and achieving Bangladesh’s goal of becoming a middle-income country (MIC) by 2024. MSMEs contribute approximately 50 per cent of the country’s industrial output and employ roughly 80 per cent of the industrial labour force. Yet, they remain financially constrained with an estimated financing gap of 20 per cent of gross domestic product (GDP). The worsening predicament of these enterprises due to the COVID-19 pandemic underlines the urgency to facilitate their access to finance.

The launch of the National Financial Inclusion Strategy - Bangladesh (NFIS-B) and SME Policy provides policy momentum to overcome existing MSME financing constraints. Urgent policy and regulatory action is needed to operationalize these and other policies to address the supply and demand-side MSME access to finance constraints, in particular constraints faced by women led MSMEs. If successful, such interventions can serve to unleash the potential of both women’s and men’s entrepreneurship in pursuit of the national economic vision and contribute to sustainable development.

In this context, this study on MSME Access to Finance in Bangladesh aims to:

- Analyse the current situation of MSMEs financial access in the current policy framework and identify gaps, including gender gaps, in the financial inclusion of MSMEs.
- Identify key issues and barriers impacting the supply of, and demand for, MSME finance.
- Provide recommendations for national policymakers and other stakeholders to improve MSMEs’ access to and usage of appropriate financial services.

This paper forms part of a series of national studies on MSME access to finance in selected countries of Asia and the Pacific. This study is structured into three parts: the current state of MSME financing, the MSME financing ecosystem - key issues and barriers, and policy recommendations for improved MSME financing in Bangladesh.

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3 UNDP, 2016.
1. Current State of MSME Financing in Bangladesh

MSMEs Defined

The national definition of MSMEs in Bangladesh is based on the National Industrial Policy 2016 (NIP), which defines Cottage, Micro, Small and Medium Enterprises (CMSME) based on fixed assets and number of employees.\(^5\) (See Table 1) The SME Policy 2019 follows the same definition. The definition has largely been adopted by other stakeholders, but according to key stakeholders consulted during this study, some discrepancies remain with regards to the treatment of trading enterprises. These enterprises fall under the jurisdiction of the Ministry of Commerce and are not included in the NIP, nor in the SME policy.\(^6\) This indicates the need for greater coordination between the Ministry of Industry and the Ministry of Commerce to ensure that trading enterprises are incorporated into any future definition of SMEs. Meanwhile, microenterprise loans by microfinance institutions are supervised by the Microcredit Regulatory Authority (MRA) and not Bangladesh Bank.\(^7\)

Women-led enterprises/MSMEs are defined in the National Industrial Policy 2016 based on the firm’s ownership structure: where at least 51 per cent of the ownership of partnerships and private limited companies (limited liability company) belong to women shareholder(s) or a woman owns a sole proprietorship enterprise.\(^8\) Meanwhile, Bangladesh Bank classifies women entrepreneurs as a woman who owns/possesses more than 50 per cent of the shares of a business.\(^9\)

Table 1
Categorization of Enterprises

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Amount of investment (Replacement cost and value of fixed assets, excluding land and factory buildings), BDT</th>
<th>Number of employed workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cottage Industry</td>
<td>Below 1 million</td>
<td>Not exceeding 15</td>
</tr>
<tr>
<td>Micro Industry</td>
<td>1.0 million to 7.5 million</td>
<td>16 to 30</td>
</tr>
<tr>
<td>Small Industry</td>
<td>Manufacturing: 7.5 million to 150 million</td>
<td>31 to 120</td>
</tr>
<tr>
<td></td>
<td>Services: 1.0 million to 20 million</td>
<td>16 to 50</td>
</tr>
<tr>
<td>Medium Industry</td>
<td>Manufacturing: 150 million to 500 million</td>
<td>121 to 300</td>
</tr>
<tr>
<td></td>
<td>Services: 20 million to 300 million</td>
<td>51 to 120</td>
</tr>
<tr>
<td>Large Industry</td>
<td>Manufacturing: More than 500 million</td>
<td>More than 300</td>
</tr>
<tr>
<td></td>
<td>Services: More than 300 million</td>
<td>More than 120</td>
</tr>
</tbody>
</table>


A Gendered Profile of MSME Ownership

The majority of the country’s 7.8 million businesses are CMSMEs and operate informally without trade licenses. Gender differences exist in MSME ownership with only 7.2 per cent owned by women,

\(^{5}\) In the remaining part of the report, the term MSME is used, incorporating cottage enterprises within the micro-enterprise category. Additionally, women MSMEs as referenced in the report are considered women-led, owned, and/or managed MSMEs.

\(^{6}\) BBS, 2019.

\(^{7}\) Bangladesh Bank, 2019.

\(^{8}\) Ministry of Industries, 2016.

\(^{9}\) Bangladesh Bank, 2019.
in a context of low levels of women's economic participation.\textsuperscript{10} For example, the labour force participation rate (LFPR) of males is 80 per cent compared to 36 per cent for females.\textsuperscript{11} This gender-gap in economic participation persists despite women's employment increasing by 35 per cent between 2008-2017, primarily fuelled by the apparel industry and services sector.\textsuperscript{12} At a sector level women's entrepreneurship is concentrated in a small number of activities, such as in the ready-made garment, agricultural, and handicraft sectors, due to a range of socio-cultural barriers which restrict women's choices and opportunities for economic participation. This is in a wider context where women comprise 59.7 per cent of the agricultural workforce compared to 32.2 per cent of men.\textsuperscript{13}

**Gender Differences in MSME Financing Constraints**

MSMEs face multiple financing barriers across their enterprise lifecycle, from the inception of an enterprise idea to the growth stage, when profits are generated. Some of these barriers were elaborated on in depth in by the World Bank in their 2019 'Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh study. Consistent with ESCAP's analysis and to summarize, on the demand side, key constraints are the lack of financial capabilities, low level of formalization, and high cost of financing, as well as poor quality of collateral, inadequate documentation, and absence of business plans. On the supply side, there is a high-risk aversion by financial institutions, and crowding out of commercial banks by State owned banks in addition to the lack of appropriate credit policies and infrastructure.\textsuperscript{14} See Figure 1.

Although many constraints are similarly experienced by both men and women entrepreneurs, women MSMEs can face greater vulnerability to these shared constraints, as well as different limitations in accessing formal financial services compared to their male counterparts due to social norms. For example, women's businesses (e.g. Facebook-based commerce) disproportionately operate without trade licenses and business registration. Consulted stakeholders perceive this to be due to a lack of awareness about the benefits of formalization, combined with concerns regarding personal safety and the time considerations in travelling to the processing centres to obtain these documents. In another example, due to laws and social norms related to inheritance, as well as lower levels of economic participation, women generally own fewer assets to use as collateral to access formal credit.\textsuperscript{15}

Nevertheless, while it is recognized that women entrepreneurs face specific constraints compared to men entrepreneurs, there is heterogeneity among women entrepreneurs with limitations varying based on their age, stage in their lifecycle, and socio-economic status, among other factors.\textsuperscript{16} Consulted stakeholders have emphasized that policy measures to address MSME financing restrictions take into account and take action to overcome gender-specific barriers facing women entrepreneurs, but there are gaps and insufficient levels of women entrepreneurs access to technical assistance programmes.

Since the lockdown measures taken due to the COVID-19 pandemic from 23 March to 30 May 2020, MSMEs face additional challenges. The difficulties faced by entrepreneurs have included a reduction in revenues, resulting in permanent or temporary business closures, inability to make loan payments, pay utility bills or staff salaries. In response, coping mechanisms have included cost cutting,

\textsuperscript{10} Ministry of Planning, 2013.  
\textsuperscript{11} World Bank, 2020.  
\textsuperscript{12} ILO, 2018.  
\textsuperscript{13} Asia Foundation, 2018.  
\textsuperscript{14} World Bank, 2019.  
\textsuperscript{15} World Bank, 2020b.  
\textsuperscript{16} IFC, 2017.
redundancies and changing products, plus pivoting business models to new offline and online business models, including the transition to e-commerce platforms — which has resulted in the creation of new opportunities. To safeguard businesses from COVID-19 shock, the Bangladeshi government has so far announced 21 stimulus packages worth BDT 121,353 crore (USD 14.3 billion). Of the total stimulus, USD 2.35 billion, has been allocated for CMSMEs, and within this allocation 5 per cent has been dedicated to women-owned CMSMEs. Moreover, a stimulus package of USD 350 million has been allocated to be disbursed through the micro finance institutions (MFIs).

However, consulted stakeholders have indicated a lack of awareness among women entrepreneurs on how to access this credit support, as well as barriers related to their informality and documentation in order to access this financial support. As a result, there is some evidence to suggest that women MSMEs in Bangladesh have been differentially, and in some respects more severely, impacted by the pandemic.

Figure 1
Categorization of constraints to women’s entrepreneurship

<table>
<thead>
<tr>
<th>Business environment</th>
</tr>
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<tbody>
<tr>
<td>Access to finance due to credit limits, collateral requirements, Know Your Customer (KYC) and other documentation requirements, credit scoring approaches, absence of specialist providers and payment infrastructure; Business registration and licensing process; Tax policies on social media advertising; Gender discriminatory labour laws and lack of subsided childcare; Land and property titles and registration process; Public private dialogue including with informal operators; lack of access to market information on procurement opportunities; access to courts and legal support to settle commercial disputes; Regulatory governance and access to information on sector regulations.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordability and access to Information Communication Technology (ICT); Service Provision of Business Development Service Providers; Women mentors and role models; Attitudes and specialisation of financial service providers; Private equity providers applying gender criteria to investments; Insufficient aggregators connecting women entrepreneurs to finance; Collection and use of sex-disaggregated financial inclusion data (e.g. mobile money, credit bureau data); Gender of mobile and banking agents.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The level of the entrepreneur and enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial literacy; Access to mobile phones and computers; Digital and technical /professional skills and knowledge; Weak access to networks; Lack of access to district markets; Lack of business documentation.</td>
</tr>
</tbody>
</table>

| National identification documents: Unpaid caring responsibilities, Personal safety due to violence against women in applying for a trade license) and accessing markets. |


MSME Financing Gap

The complex range of interacting constraints mentioned above result in a gap between MSMEs’ financial needs and the finance they can access. The World Bank estimates the MSME financing gap

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17 UNESCAP, 2021.
18 LankaBangla 2020; See Bangladesh Bank's website for circulars related to COVID-19 issued during 2020: https://www.bb.org.bd/mediaroom/circulars/circulars.php#
20 UNESCAP, 2021.
in Bangladesh at Tk 170 billion (USD 2 billion). The SME Finance Forum reports that the current volume of MSME finance is 32.7 per cent of total demand, implying that the formal MSME finance gap is 67.3 per cent. The formal finance gap differs both by firm size and gender. According to the SME Finance Forum, 61 per cent of Bangladesh women-led SMEs are partly or fully constrained in their access to finance, compared to 49 per cent for men-led SMEs. A previous study in 2014-15 similarly estimated that a USD 0.77 billion financing gap existed for women-owned SMEs in Bangladesh, which corresponds to an unmet financing demand for 60.2 per cent of women-owned SMEs.

State of MSMEs’ Access to Finance

MSMEs’ access formal finance through 60 scheduled banks, 34 NBFIs, five non-scheduled banks and 700+ MFIs. Of the scheduled banks, six are state-owned (SOCB), eight Islamic shariah-based banks (IB), nine foreign commercial banks (FCB), 34 private commercial banks (PCB) and three specialized banks (SB).

Over the last decade there has been growth and improvement in the financial support available to MSMEs due to changes in the policy environment. Since 2010, the total volume of loan disbursement to MSMEs (by banks and NBFIs) has tripled from around BDT 540 billion (USD 6 billion) to more than BDT 1,670 billion (USD 20 billion) in 2019 (Figure 2). Cottage, small and micro (CSM) sized enterprises now receive a greater proportion of the overall loans. An analysis of the patterns of MSME loan distribution shows that during the initial period, relatively a greater proportion of loans were provided to medium-sized enterprises – the subsegment considered less risky by financial institutions – but later the situation reversed.

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24 IFC, 2017.
25 Scheduled banks are licensed under the Bank Company Act, 1991 (Amended up to 2013).
26 Bangladesh Bank, 2020a.
27 Note that this data consists of loans made by banks and NBFIs.
Since 2010, bank lending to MSMEs has nearly tripled as a result of targeted policies — including attractive loan provisioning, customized financing solutions for 50 MSME clusters, and setting indicative yearly targets for all financial institutions within a given region or area — that have allowed an annual increase in total MSME loans by 18 per cent. Additionally, an overall improvement of the efficiency of Bangladesh’s financial sector may have also contributed to the steep upward trend witnessed in MSME financing.

Loan disbursements by financial institutions

There is a broad range of financial institution (FI) types operating in Bangladesh. Banks provide the majority of loan disbursements to MSMEs, while NBFIs only offer a limited number. This imbalance persists, despite an increase in the number and geographical reach of NBFIs over the last ten years, and a quadrupling of the portfolio size of the NBFI from BDT 16.97 billion (USD 200 million) in 2010 to BDT 71.63 billion (USD 840 million) in 2018. Private commercial banks (PCBs) have been at the vanguard in promoting MSME financing, and Islami Bank Bangladesh Limited (a shariah-based bank) has the largest SME portfolio in Bangladesh at 11 per cent. By comparison, the role of state-owned commercial banks (SOCBs) and the SBs has been declining over the last decade. The contribution of the SOCBs in MSME loan disbursement declined from around 15 per cent in 2010 to 8.5 per cent in 2019. The share of specialized banks also dropped during that period, from 5.2 per cent to 1.2 per cent (Figure 3). Considering the reach of the SOCBs and SBs, it is recognized that they should play a much greater role in providing financial support to the MSMEs, particularly in the rural and semi-urban areas, where they have a stronger footprint than PCBs, FCBs and NBFIs.
Figure 3
Percentage Contribution of SOCBs & SBs to MSMEs Financing

![Percentage Contribution of SOCBs & SBs to MSMEs Financing](image)

*Source:* Author’s analysis, based on BB Data

*Note:* SOCBs = State-owned commercial banks, SBs = State banks.

Sector-wise loan disbursement

Over the last decade, service-related enterprises and manufacturing industries have grown and so has their share of credit relative to trading enterprises. For example, in 2019 the service industry received more than 22 per cent of total loans, compared to around 6 per cent in 2010 (Figure 4). This is in a policy context where Bangladesh’s move towards a ‘knowledge-based economy’, digital transformation and conducive policy support have all strengthened the MSME services industry.

Figure 4
MSME Loan Disbursement Broken Down by Sector 2010 and 2019

![MSME Loan Disbursement Broken Down by Sector 2010 and 2019](image)

*Source:* Author’s analysis, based on BB Data
Loan Disbursement by Gender

Women MSMEs receive a low number of loans, although there has been a marginal improvement over the last 10 years. They received from 3 to 4 per cent of the total loan disbursement between 2010 and 2019 (Figure 5) in a context where it is well established that women entrepreneurs face greater vulnerability to constraints in credit access compared to men, as well as gender-specific credit constraints. Indeed, consulted stakeholders indicated that most women entrepreneurs are informal as they do not have trade licenses and other documents, which in turn means they either take out personal loans, which is not documented as an enterprise loan, or are simply unable to access formal credit. Nevertheless, while women entrepreneurs’ relative share of loan disbursement is still small, the amount of credit for them has grown steadily over the past decade, increasing three-fold, from BDT 18 billion (USD 210 million) in 2010 to BDT 61 billion (USD 720 million) in 2019. (See Figure 6).

Figure 5
Total MSME loan disbursement by year and percentage breakdown by gender 2010-2019

Source: Author’s analysis, based on BB Data
Some institutions serve women MSMEs better than others. The gender ratio of loan disbursements is better for NFBIs and SBs compared to SOCBs and PCBs. But there is a huge shortfall in loans disbursement against the target of a minimum 15 per cent of loans allocated to women entrepreneurs. Reaching this target will require a concerted effort to increase loan disbursement by a further 11 to 12 percentage points. With regards to the sectoral distribution of such loans, trading businesses are the highest recipients, followed by businesses in manufacturing and the service sector (Figure 7). This is a concern when it comes to lending under the BB refinancing scheme because trade-based MSMEs often rely on cheap imports from competitors rather than domestic MSMEs, which is detrimental to the latter’s growth.
Non-Banking Financial Institutions (NBFIs) and MSME financing

NBFIs occupy a unique position within the financial market. NBFIs cannot offer all the services of a bank, but they provide diversified financing including syndicated financing, bridge financing, lease financing, securitization instruments, and private equity. Although NBFIs’ contribution to MSME financing quadrupled between 2010 and 2020, their share in the overall MSME loan disbursement remains minimal; over the past ten years it has ranged from around 2.14 per cent to 4.96 per cent of the total disbursement by banks and NBFIs. NBFIs have increased their proportion of loan disbursement to women entrepreneurs from only 3.1 per cent of the total loan disbursement in 2010 to 8.7 per cent in 2019 (Figure 8).
Financial Products for Women MSMEs by CBs and NBFIs

In order to encourage banks to increase their loan disbursements to women MSMEs, they have been required to set up dedicated Women Entrepreneur Desks and SME Help Desks in all branches. Some banks and NBFIs have also developed specialized products for women entrepreneurs (Annex 1). These customer-centric approaches aim to address women entrepreneurs’ constraints to MSME financing. They require more market research and handholding of women MSMEs, product innovation and marketing, with a segmentation of the women’s MSME financing market in terms of sector, geography, experience and social profile.

MIDAS is an example of an institution that is perceived to work closely with small and medium-sized entrepreneurs with special focus on women and provide them with handholding support throughout their entrepreneurial journey to become financially ready. MIDAS prides itself on the fact that its entrepreneurs are sought after by other commercial banks and financial institutions, as they are better prepared to handle loans than other women entrepreneurs. Furthermore, the small borrowers of MIDAS have a low default rate on loans.\(^\text{31}\)

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\(^{31}\) Stakeholder interview, 2020.
Microfinance Institutions and MSMEs

MFIs have played a pivotal role in broadening and deepening financial access for the poor, especially for women entrepreneurs operating informal micro enterprises. Although MFIs registered under MRA, along with Grameen Bank, hold the lion’s share of the microfinance sector, there are other governmental and non-government MFIs. In 2017-2018, the total microcredit and microenterprise loans disbursed was 1,201.91 billion BDT (USD 14.2 billion). Moreover, of the 25.4 million microcredit and microenterprise loans borrowers, 93 per cent were women.32

Although there are more than 700 MFIs (registered under MRA) in Bangladesh, the top ten MFIs and Grameen Bank (not regulated by the MRA) hold 87 per cent of total savings of the sector and 81 per cent of total outstanding loan of the sector.33 Brac, ASA, Bureau Bangladesh, TMSS and SSS are the top five MFIs in Bangladesh. Brac and ASA are the distinct leaders in terms of number of branches, members and borrowers (Table 2). Several governmental agencies also run microfinance programs. Of the scheduled commercial banks that provide microcredit, Islami Bank Bangladesh Limited is the largest.

Table 2
Top MFIs – Branches, Members and Borrowers

<table>
<thead>
<tr>
<th>Name of the organization</th>
<th>Number of Members</th>
<th>Number of Borrowers</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASA</td>
<td>7,577,355</td>
<td>6,156,543</td>
<td>3,042</td>
</tr>
<tr>
<td>Brac</td>
<td>6,841,622</td>
<td>6,005,174</td>
<td>2,172</td>
</tr>
<tr>
<td>Bureau Bangladesh</td>
<td>1,512,489</td>
<td>1,017,136</td>
<td>802</td>
</tr>
<tr>
<td>TMSS</td>
<td>993,304</td>
<td>844,772</td>
<td>856</td>
</tr>
<tr>
<td>SSS</td>
<td>600,906</td>
<td>489,007</td>
<td>353</td>
</tr>
<tr>
<td>Jagarani Chakra Foundation</td>
<td>490,507</td>
<td>404,906</td>
<td>361</td>
</tr>
<tr>
<td>Sakti Foundation</td>
<td>475,255</td>
<td>430,861</td>
<td>424</td>
</tr>
<tr>
<td>Uddipon</td>
<td>474,783</td>
<td>337,979</td>
<td>307</td>
</tr>
<tr>
<td>Podopkhep</td>
<td>373,949</td>
<td>334,676</td>
<td>296</td>
</tr>
<tr>
<td>Sajeda Foundation</td>
<td>280,416</td>
<td>236,338</td>
<td>178</td>
</tr>
<tr>
<td>Total</td>
<td>19,620,586</td>
<td>16,257,392</td>
<td>8,791</td>
</tr>
</tbody>
</table>

Source: Authors’ analysis, based on MRA, 2018a.

Initially, MFIs were entirely dependent on grants and foreign funds to run their operations; however, the sector has now diversified its sources of funding and strives for sustainability. Currently, its major sources of funding are member bonds, accumulated surplus and bank loans, which constitute more than 90 per cent of the total. While government support (through PKSF) constitutes 6 per cent, donor funding has reduced to around 1 per cent of the total (Figure 9).

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32 MRA, 2018b.
33 https://www.bb.org.bd/fnansys/mfi.php
MFIs offer micro loans of four sizes: small, medium, large and extra-large. More than 55 per cent of the MFI borrowers are ‘extra-large’ borrowers, who borrow more than BDT 500,000 (USD 6,000). Another 23 per cent fall in the ‘large’ segment borrowers, who borrow an amount ranging from BDT 100,000 (USD 1,200) to BDT 500,000. That is, nearly 80 per cent of borrowers borrow BDT 100,000 or more. It is important to notice that the 55 per cent of MFI clients that borrow more than BDT 500,000 qualify, by size, for loans from conventional banks and NBFIs. If they were able to access loans from such institutions, they would be able to save a lot, as the cost of funds is three times higher when borrowing from MFI.

This ‘credit-trap’ deserves deeper investigation into the opportunity cost of non-formalization of MSMEs, for the sake of ensuring sustainable accessibility of low-cost finance by women-led MSMEs. This also calls for a gender-sensitive MSME ecosystem that incentivizes business consultants, incubators and growth accelerators to offer business advisory services to high potential women-owned MSMEs and support for pre-formal enterprises to graduate to formal ones.

Furthermore, an unfolding scenario of divergence and convergence can be seen in terms of product design, customer segmentation and market positioning by MFIs vis-à-vis conventional banks and NBFIs. The divergence happens in that both sets of financial institutions are deviating from their traditional scope of operations; MFIs are moving into larger loan segments, while banks and NBFIs are moving towards smaller loans. But as they move away from their original territory, they converge in new ‘shared territory’. The policy implications of such developments highlights the need and scope for financial institutions to specialize in MSME lending. Several top performing MFIs have the potential to grow and specialize as MSE lenders, while some of the conventional banks and NBFIs can reposition themselves to become either specialist-MSE or specialist-SME lenders. Market-driven
specialization can support regulators and facilitators to devise targeted and more meaningful policies and interventions for women-led MSMEs’ access to finance.

Regulators could facilitate and incentivize financing specialization of lenders in line with their capabilities, instead of requiring all banks and NBFIs to fund MSMEs. Regulators could design targeted incentive regimes to support those serving MSEs including women MSEs and another for those that serve medium enterprises. Moreover, to address the problem of trade licenses, regulators may allow an individual’s national identity card (smart NID) as a temporary trade license, e.g. for an initial three to five years to access a loan, which would facilitate women entrepreneurs’ access to the formal banking system, and business chambers.

Agent Banking

Agent banking allows an outlet to conduct a limited set of banking transactions for clients on behalf of a bank. This has been a proven model to support the financial inclusion of unserved or underserved clients in rural areas. Agent banking has experienced phenomenal growth in Bangladesh. Since the COVID-19 pandemic, agent banking has become even more important due to the limitations on travel impacting access to traditional banking services in urban and peri-urban areas as well as remittances, which often has significant informality in its flows. As of September 2020, the number of agents stood at 10,163 — a 55 per cent jump in a year — while the number of outlets reached 14,016 — a 49.3 per cent jump in a year. The majority at 87 per cent of agents and 88 per cent of outlets are situated in rural areas. Together, Dutch Bangla Bank (DBBL) and Bank Asia, accounted for 58.8 per cent of total outlets. Moreover, Bank Asia had the largest number of agents at 3889, followed by Islami Bank Bangladesh Limited with 1581. During the same period, the number of accounts from those institutions licensed to have agents, increased to nearly 8.2 million, an 82 per cent increase in only one year. The number of loan disbursed increased by a significant 255 per cent, reaching BDT 108,695.84 lac (USD 128 million), and inward remittance increased 221.13 per cent, compared to the previous year, with BDT 3,833,524.40 lacs (USD 4.5 billion). See Table 3.

Table 3
Growth of Agent Banking in Bangladesh

<table>
<thead>
<tr>
<th></th>
<th>September 2019</th>
<th>June 2020</th>
<th>September 2020</th>
<th>Change</th>
<th>Y-to-Y</th>
<th>Q-to-Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks with Agent Banking License</td>
<td>22</td>
<td>28</td>
<td>28</td>
<td>6</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Banks in Operation</td>
<td>19</td>
<td>23</td>
<td>24</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Number of Agents</td>
<td>6,531</td>
<td>8,764</td>
<td>10,163</td>
<td>56%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Number of Outlets</td>
<td>9,391</td>
<td>12,449</td>
<td>14,016</td>
<td>49%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Number of Accounts</td>
<td>3,964,346</td>
<td>7,358,190</td>
<td>8,221,893</td>
<td>107%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Number of Female Accounts</td>
<td>1,465,024</td>
<td>3,410,270</td>
<td>3,749,087</td>
<td>156%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Number of Rural Accounts</td>
<td>3,308,018</td>
<td>6,377,457</td>
<td>7,111,887</td>
<td>115%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Amount of Deposit</td>
<td>616,987</td>
<td>1,022,021</td>
<td>1,304,062</td>
<td>111%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Amount of Loan Disbursed</td>
<td>30,579</td>
<td>72,055</td>
<td>108,696</td>
<td>255%</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Amount of Inward Remittance</td>
<td>1,193,770</td>
<td>2,665,059</td>
<td>3,833,524</td>
<td>221%</td>
<td>44%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank, Quarterly Report on Agent Banking July – September 2020

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34 Bangladesh Bank, 2020.
Agent banking has enabled banks to achieve rural penetration and extend women’s financial inclusion. The number of female accounts has seen a significant increase with a jump of 155 per cent over the last year, as of September 2020. The percentage of male accounts stood at 54.40 per cent compared to female accounts at 45.59 per cent with a gender gap of 8.9 per cent. Indeed, BB notes the gradual narrowing of the gap between male and female accounts. However, one area of concern is that the loan disbursement to women/entrepreneurs only comprised 10 per cent of the total loan disbursed through agent banking in the last quarter. In sum, agent banking shows immense potential in bridging geographic and gender gaps in access to financial services, yet more work needs to be done to stimulate greater loan disbursement to women entrepreneurs via agents.

Mobile Banking and Mobile Financial Services (MFS)

MSMEs and traders are among the main users of MFS. These services have improved the operational efficiency of MSMEs and contributed to their bankability. Currently, there are 15 bank-led MFS providers with over one million agents across the country in operation. Between December 2019 and December 2020, the number of registered MFS clients (accounts) increased 25 per cent, from under 80 million to close to 100 million. In December 2020 the number of active accounts was 32.2 million, the total value of transactions was BDT 556 billion (USD 6.7 billion), about BDT 19 billion (USD 220 million) per day, the number of transactions stood at 300 million, averaging 9.7 million transactions per day, and the number of agents was 1,058,897. The three main transaction categories by volume as of December 2020 represented 88 per cent of the total: cash in transactions (30.7 per cent), P2P transactions (30 per cent), and cash out transactions (27.3 per cent). Other transactions included merchant payments (3.8 per cent), salary disbursement (3.7 per cent), and utility bill payments (1.5 per cent).

The MFS industry experienced robust growth between December 2016 and December 2020. While the number of MFS providers dropped from 17 in December 2016 to 15 as of December 2020, all other MFS industry performance indicators showed healthy growth. During the same period the number of MFS agents and the number of accounts increased, respectively, 49 per cent and 142 per cent, while the active usage rate fell slightly from 38.6 per cent to 32.5 per cent. In terms of major MFS products by value, in December 2016 the three main transaction categories represented 96.7 per cent of the total: cash in transactions (43.2 per cent), cash out transactions (39 per cent) and P2P transactions (14.5 per cent).

Small Cap Equity Market

In 2016, Bangladesh Securities and Exchange Commission (BSEC) issued rules for defining and establishing a small cap equity market. In August 2018, the BSEC approved the Qualified Investor Offer by Small Capital Companies Rules of 2016, which allows small capital businesses to issue an initial public offering (IPO) in the stock market. Subsequently, on 1 May 2019 the Dhaka Stock Exchange (DSE) launched its small cap platform, DSE SME Platform. On 7 October 2019, a cross-
border platform, named V-Next, was introduced in DSE\textsuperscript{45, 46} to supplement the small cap equity platform of DSE, and channel Chinese investment into Bangladesh for technology startups.\textsuperscript{47}

As entities begin to list, it will be important to track sex-disaggregated data on enterprise ownership to support research on the number of businesses owned and led by women entrepreneurs that successfully launch an IPO. Elsewhere there have been initiatives to encourage more women-led businesses to enter public trading as a way to address gender imbalances on boards.\textsuperscript{48} There is the potential for the emergence of similar initiatives in Bangladesh.

**Venture Capital**

Venture capital (VC) was introduced to Bangladesh in 2015 and the total number of Alternative Investment Fund managers (AIFM) stood at 17, as of January 2020.\textsuperscript{49} These firms primarily focus on technology-based companies and are registered with the Registrar of Joint Stock Companies (RJSC) as limited companies under the Companies Act 1994, and also under the BSEC Alternative Investment Rules, 2015.\textsuperscript{50}

In 2016, BSEC reforms made venture capital exits easier because if a company is financed by VC and if its paid-up capital is within the bracket delineated by the Small Capital Companies Rules of 2016, it will be eligible to offer IPOs in the small capital platform.\textsuperscript{51}

From the supply side perspective, the VC ecosystem is yet to mature. To stimulate the market, the government allocated BDT 1 billion (USD 12 million) in the FY2020 budget for startups and launched its own public venture capital company called Start Up Bangladesh, under the ICT Ministry and they have since provided grants to around 40 ideas and startups.\textsuperscript{52, 53}

A key policy gap is the non-treatment of VC funds as an allowable investment for tax rebate.\textsuperscript{54} Although the Alternative Investment Rule allows provident funds and pension funds to be invested in venture capital funds, other acts and rules, such as the Trust Act and Finance Act, need to be amended. Likewise, internationally life insurance is a major source of VC funds (as both are long-term investments), Bangladesh’s Insurance Act needs to include Alternative Investment Fund in the list of eligible investments. Similarly, as per the alternative investment rule, VC’s can only invest in companies that are less than two years old. This puts a significant limitation on VC funds and deprives MSMEs of growth capital. As such, there is an opportunity to relax this limit allowing various stages of VC to flourish from seed stage to expansion or even pre-IPO stage. This would reduce the supply side funding constraints, and provide an impetus to the VC ecosystem, in turn accelerating MSME growth.

There is an internationally acknowledged gender bias within venture finance, this is despite increased recognition internationally on the value of gender-lens investing in terms of conferring not only financial but also development returns.\textsuperscript{55} There is a lack of publicly available information on VC

\textsuperscript{45} The Business Standard, 2019.
\textsuperscript{46} New Age, 2019.
\textsuperscript{47} eGeneration, 2019.
\textsuperscript{48} Turner, N., 2019.
\textsuperscript{49} Hossain, S. 2020.
\textsuperscript{50} BSEC, 2015.
\textsuperscript{51} BSEC, 2015.
\textsuperscript{52} https://startupbangladesh.gov.bd/
\textsuperscript{53} Lightcastle Partners, 2020.
\textsuperscript{54} Hossain, S. 2020.
\textsuperscript{55} Dalal, M. and Sriram, M. (2020); Rose, A. (2019).
investments in women-owned enterprises in Bangladesh or VC firms that apply an intentional gender lens. SEAF Bangladesh Ventures is a promising candidate given its proprietary Gender Equality Scorecard to assess and promote gender equality among investees. Moreover, the newly established Start Up Bangladesh, as a VC firm wholly owned by the government, has a strong imperative and opportunity to intentionally channel some of its investments to women entrepreneurs. Separately, a data gap needs closing on women working as investors and on investment committees in VC firms in Bangladesh. On the demand side, investors find many Bangladeshi women-owned SMEs are not VC investment ready due to a lack of accounting records and business plans. Another challenge is limited awareness, particularly among women, of such funds and knowledge about how to deal with the investors.

**Angel investors**

Angel investment is still at the early stage of development. Two networks/organizations are active in Bangladesh: Bangladesh Angels and the Angel’s Network (TAN). TAN is the first women-led angel investment company in Bangladesh. It is sector agnostic and convenes 25+ anonymous angel investors and works with more than 30 startups. Bangladesh Angels started in October 2018 and provides an investing platform connecting startup entrepreneurs with investors. More data should be collected on the number of angle investors and volume of investment, with sex-disaggregated figures based on investee. Moreover, there is a need for regulatory incentives to be developed to encourage angel investment, including from overseas, such as those of Bangladeshi heritage and high net worth individuals including women investors.

**Crowdfunding**

Platform-based crowd-funding mechanisms are not common. In terms of formalization, there is a policy vacuum and knowledge gap. There are limited entities offering crowdfunding services in Bangladesh. BD Venture launched 'FundSME.com.bd' to help entrepreneurs to raise capital from the crowd to accelerate their businesses. In May 2020, a2i of ICT Ministry launched a donation-based crowd-funding platform named ‘ek-desh’. Other private initiatives were established but not developed (e.g. www.projekt.co) due to the lack of any policy and regulatory framework.

**Impact Investing**

There is an active impact investing market in Bangladesh. At least 15 impact investors are active in Bangladesh and the country has the third most active impact investing market in South Asia after India and Pakistan, according to a market study conducted in 2015. DFIs have deployed over USD 830 million to date, while other impact investors have deployed USD 120 million. Given the global trend towards increased impact investing over the last five years there is scope for a renewed scoping study on the supply side provision of impact investment in Bangladesh. Specifically, there is a lack of market research on the prevalence of gender-lens investing in Bangladesh among impact investors. While some practices do exist, they are not documented, intentional, nor is there data or any formal convenings of stakeholders in the gender-lens investing ecosystem working together to build the market – a clear gap with significant potential going forward.

56 https://www.seaf.com/investing/asia/seaf-bangladesh-ventures/
57 IFC, 2016.
59 Habib, SMA, 2019.
60 Dalberg, GIIN, UK AID, 2015.
2. MSME Financing Ecosystem in Bangladesh – Key Issues and Barriers

Multiple institutions have a MSME mandate in Bangladesh. Major stakeholders involved in the MSME ecosystem include the following (Figure 10):
Figure 10
MSME Financing Ecosystem and Interagency Relationships in Bangladesh

Ministry of Industry
Lead MSME related GOB policymaking agency

Ministry of Finance
Lead financial policymaking agency

Other Government Agencies
Overarching policy making entities related to women development, youth, ICT, agriculture etc. and undertake different targeted financial supports programs

Facilitating Entities
e.g. SME Foundation, BSCIC, PKSF, etc.

Regulatory Bodies

Bangladesh Bank
Lead MSME credit policy and regulations

MRA
Lead micro financing policymaking and regulations

BSEC
Lead regulatory agency for capital market

Development Partners
e.g. WB, ADB, ESCAP, JICA, DFID,

Supply Side

Banks
Commercial Banking Institutions

NBFIs
Commercial non-Banking Institutions

Microfinance Institutions
NGOs and others

Alternative Finance
Capital market, venture capital, angel investment

Informal Sources
Local Lenders

Demand Side

Entrepreneurs

Women Entrepreneurs

Chambers & Associations

Source: Jahan, S.M. and Manik, M.
• **Policy and regulatory bodies** including the Ministry of Industry (MoI), the Ministry of Finance (MoF), Bangladesh Bank (BB), Microcredit Regulatory Agency (MRA), Bangladesh Securities and Exchange Commission (BSEC), and other government agencies related to women, youth, ICT, agriculture, etc.;

• **Facilitating agencies** such as Bangladesh Small and Cottage Industries Corporation (BSCIC), Small and Medium Enterprise Foundation (SMEF), Palli Karma Sahayak Foundation (PKSF) or Bangladesh Investment Development Authority (BIDA);

• **Development partners**, such as ESCAP and Asia Development Bank.

• **Supply-side stakeholders** including financial service providers, financial markets and informal sources of finance.

• **Demand side stakeholders** including entrepreneurs, and those that represent them such as business chambers, trade bodies, and industry associations.

A major problem in this complex ecosystem is inter-agency coordination. Other issues include mandate ambiguity, mission drift, and role overlap, which results in inefficiencies and resource drainage. Coordination issues stem from the number of stakeholders involved, their respective technical capacity on MSME issues, and monitoring capacity and IT capabilities to ensure policies are implemented in practice. Consequently, at an ecosystem level, agencies fail to reap the efficiency gains and financial savings of a coordinated and synergized approach to create a conducive environment for MSME development.

While institutional coordination is being partially addressed by the SME Policy 2019, consulted stakeholders indicate it does not go far enough. The policy sets the objective to bring all the ministries, government organizations, and trade bodies under a single platform, creating two national committees – the National SME Development Council (NSDC), with the SME Section of the MoI serving as the Secretariat for implementing activities, and the National SME Task Force.

Furthermore, several additional subject-specific working committees are proposed including on SME Funding and Women Entrepreneur Development. The creation of these committees is welcome, but coordination challenges are anticipated to remain. The NSDC is a high-level committee but some key stakeholders are missing, such as the Bangladesh Securities and Exchange Commission (BSEC), which can play a key role in assisting the ‘graduating’ medium-sized enterprises), the Micro Credit Regulatory Authority (MRA), and Palli Karma Sahayak Foundation (PKSF), of relevance to those in the rural, semi-urban and urban- peripheries, as well as representatives from the private sector and CSOs. Moreover, these high-level committees do not have sufficient subject matter expertise, according to consulted stakeholders. In parallel to the developments with the NSDC and National SME Taskforce, a separate committee chaired by the MoF is leading the national financial inclusion agenda, which includes a focus on MSME financing. Since each group will have little enforcement power over those agencies beyond its jurisdiction, this presents risks for effective and coordinated policy implementation.

As such, there is a need for strengthened SME development coordination and development of mechanisms to support such efforts to promote collective coordinated actions as a part of a shared long-term MSME vision. This would contribute to ensuring an enabling business environment for MSMEs and to make best use of public resources. An international example of an approach to achieve such coordination comes from Malaysia. In 2004, Malaysia created the National Entrepreneur SME Development Council (NESDC) as the highest policy making body for SME development and it is chaired by the Prime Minister. SME Corporation Malaysia (SME Corp. Malaysia), the central coordinating agency (CCA) under the Ministry of Entrepreneur Development and Cooperatives (MEDAC), provides the Secretariat for the NESDC. SME Corp is responsible for the implementation of development programmes for small and medium enterprises (SMEs) across all related Ministries and agencies. It acts as the central point of reference for research and data dissemination on SMEs and
entrepreneurs, as well as provides business advisory services for SMEs and entrepreneurs throughout the country.\textsuperscript{61}

**Policies and Regulatory Framework**

The involvement of multiple stakeholders working directly or indirectly on entrepreneurship development and MSME financing, highlights how MSME financing policy making sits at the intersection of multiple policy and regulatory areas. The following policies guide MSME development in Bangladesh:

**The 10-year Perspective Plan of Bangladesh (2010-2020) and its accompanying 7\textsuperscript{th} Five-year plan and budget.** Developed by the Planning Commission, these policies articulate the country’s economic development vision and goal to be a middle-income country, underpinned by a commitment to inclusive growth and gender equality. The Plan specifically identifies the SME sector as a thrust area and the role of banks for SME financing, especially in rural areas. The 7\textsuperscript{th} Five-year plan specifically puts forward special strategies for SME development and highlights access to financing facilities.\textsuperscript{62}

**National Financial Inclusion Strategy-Bangladesh (NFIS-B):** This is the overarching policy framework for MSME financing. The MoF and BB led the development of the NFIS-B supported by the Business Finance for the Poor – Bangladesh (BFP-B) project.\textsuperscript{63} The NFIS-B aims to ensure access to financial services to all by 2024, to align with the government’s target to graduate from Least Developed Country (LDC) to MIC status by 2024. The implementation of the NFIS-B is being led by the NFIS-B National Council (NNC) and chaired by the MoF. It has six objectives, 12 strategic goals and 65 specific targets to drive financial inclusion at the personal, household, and enterprise levels. Key themes relevant to MSME financing in the NFIS-B objectives, priorities and targets are set out in Tables 4 and 5.\textsuperscript{64}

**Table 4**
Overview of themes within NFIS-B objectives relevant to MSME financing

<table>
<thead>
<tr>
<th>NFIS-B Objectives</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 2</td>
<td>Ensure the availability of a wide range of financial products and services capable of serving in different segments of the financial market and having capacity to meet multiple needs and demands of various population groups and different enterprises.</td>
</tr>
<tr>
<td>Objective 3</td>
<td>Develop the financial system to assure quality, relevance, and responsiveness of the financial products and services such that these are appropriately designed, priced and tailor-made to fit the specific needs and demands of the users.</td>
</tr>
<tr>
<td>Objective 5</td>
<td>Expand financial literacy and education supplemented by a strong and robust consumer empowerment framework to empower the people and the entrepreneurs to make rational and well-informed financial decisions.</td>
</tr>
<tr>
<td>Objective 6</td>
<td>Create statistical capacity of regulatory bodies to collect and disseminate comprehensive and quality financial inclusion data disaggregated by sex, age, location and other aspects to monitor progress of implementation of this strategy and introduce adjustments, if necessary.</td>
</tr>
</tbody>
</table>

*Source: Extracted from Ministry of Finance, 2020.*

\textsuperscript{61} SME Corp, 2021.

\textsuperscript{62} Planning Commission, 2012 and 2016.

\textsuperscript{63} Ministry of Finance, 2019.

\textsuperscript{64} Ministry of Finance, 2020.
<table>
<thead>
<tr>
<th>NFIS-B Strategic Goal/Priorities</th>
<th>Themes</th>
<th>Relevant targets and themes to MSME financing and constraints</th>
</tr>
</thead>
</table>
| Priority 1                      | Increase financial deepening. | 1: Introduce e-KYC for all types of bank accounts, MFS accounts and other regulated financial services accounts.  
2: Revisit the Know Your Customer (KYC) requirement for cottage and micro enterprises, micro-merchant/retails businesses and low-income households.  
5: Expand the scope and practice of ‘Cluster’ and ‘Value Chain’ financing.  
7: Develop a framework for diversifying financing instruments and financing options for MSMEs and low-income households.  
9: Establish a Micro-Finance Credit Information Bureau (CIB), Collateral (both movable and immovable) Registry Bureau for financial services and upgrade the existing CIB under BB into full-fledged ‘Credit Registry’.  
10: Introduce the usage of artificial intelligence and machine learning for credit scoring and monitoring through big data analysis.  
11: Introduce Credit Guarantee Fund (CGF) for MSME finance, agricultural finance and green finance.  
12: Take necessary initiatives for developing a refinancing mechanism for funding ‘Start-ups’.  
15: Explore the feasibility to introduce 'P2P Lending' and 'crowdfunding'. |
| Priority 3                      | Establish robust data and measurement framework | 3: Ensure the collection of comprehensive and quality financial inclusion data disaggregated by sex, age, location and other aspects |
| Priority 5                      | Broaden and Deepen Financial Inclusion of Women, Population affected by Climate Change and other underserved segments of population. | 1: Develop separate policy/strategy and undertake special programs by all regulatory bodies of financial sector on women financial inclusion covering the issues below: Dedicated focus on catering the need financial services (savings, credit, payment, investment and insurance) of women individuals and entrepreneurs from both rural and urban areas; Convenient service delivery channel for women; and Separate focus for women in Digital Financial Service (DFS). |
| Priority 6                      | Upscale digital financial services and fintech. | 4: Explore the potential modalities to introduce credit service and full deposit service for MFS account holders.  
5: Explore the potential solutions to provide all banking services at full scale in outlet level under agent banking. |
| Priority 9 | Strengthen the insurance services | 3: Introduce innovative insurance products for marginalized people, small business and agriculture, for example weather-based crop insurance and health insurance for low income earners. |
| Priority 10 | Reinforce the capital market services. | 2: Expand the scope of alternative investments like venture capital, impact funds, alternative investment funds (AIF), special purpose vehicles (SPV) for CMSME finance, agricultural finance, and green finance at remote rural level. |


National Industrial Policy (NIP): This was developed by the Ministry of Industry in 2016 and is the principal policy document for industrial development in Bangladesh and provides a strategic framework for MSME development within the country and the basis for the SME Policy 2019. This policy seeks to enhance credit to women MSMEs through a 15-per cent MSME credit quota for women. It also states that non-collateral-based credit should be increased to facilitate women’s entrepreneurship in Bangladesh. Notably, consulted stakeholders have indicated that the 15-per cent MSME credit quota is difficult for banks to meet due to a lack of perceived demand from women entrepreneurs and challenges facing women entrepreneurs to meet the eligibility requirements for credit facilities.

SME Policy: Approved in 2019, this operationalizes the NIP for the MSMEs with the goal to increase the GDP contribution of SMEs from 25 per cent to 32 per cent by 2024. It has 11 strategic objectives accompanied by targets and actions, including Access to Finance for SMEs (objective 2) and women-led SME development (objective 8). Furthermore, it highlights the importance of women's participation in the SME sector and the measures required to widen and deepen financial access for women entrepreneurs. The Policy has comprehensively addressed the issues involving MSME development and has brought in key public and private sector MSME promotion agencies with specific roles and responsibilities.

Bangladesh Bank Policies on MSME Financing

The SME & Special Programmes Department (SMESPD) of BB Circular No. 02: Master Circular on MSME Financing 2019 guides SME financing and sets targets for financial institutions (banks and NBFls). The directive builds on previous policies with the consistent aim of increasing the credit available to MSMEs. For example, in 2010, BB set a target for all commercial banks and banking institutions to allocate BDT 388.58 billion (USD 4.6 billion) worth of credit to MSMEs, a goal which was overachieved by 138 per cent, with BDT 535.44 billion (USD 6.3 billion) disbursed to 308,950 businesses the same year. In addition, Bangladesh Bank has issued directives proposing that by 2021, 30 per cent of all bank and institutional loans countrywide be directed towards MSMEs.

In terms of regulatory oversight of this target, the 2019 BB SME Policy clarified that ‘in the future, banks/financial institutions will send their target to the SME and Special Programmes Department as well as branch offices of Bangladesh Bank fixing their target of SME loan sector wise, region wise and branch wise’. It further elaborates that there is a three-tier monitoring system (BB Head Office, BB Branch Offices and Banks) will be established in case of SME credit. It also set out the plan to

67 Bangladesh Bank, 2019b.
69 World Bank, 2019.
establish a SME Credit Monitoring Cell in the branch offices of Bangladesh Bank. As part of this system, it established the requirement that banks set up a ‘Monitoring Unit’ for SME credit.\textsuperscript{70} The Quarterly Statement Regarding SME Credit Disbursement (Under Refinance) set out in the annex to the SME policy requires banks to report SME credit disbursed (target, number and amount disbursed, per cent disbursed against target and total disbursement) on a quarterly basis data, by the nature of the credit with reference to the size of the business (small or medium) and by sub-sector (service; business; industry). All data is required to be disaggregated by male and female entrepreneurs.\textsuperscript{71}

BB has a number of refinancing schemes to incentivize MSME financing. The central bank provides 100 per cent of refinancing against disbursement of both working capital and term loans made to MSMEs. Any bank/NBFI having less than 10 per cent of its portfolio as non-performing was eligible to avail this facility for financing their MSME clients. However, it has been mandated that 15 per cent of the BB refinancing fund should be disbursed among women entrepreneurs.

Currently, there are four regular refinancing schemes and some project-based refinancing schemes in operation. See Table 6.

\textbf{Table 6}
\textbf{State of Bangladesh Bank Refinancing Scheme, as of December 2018}

<table>
<thead>
<tr>
<th>Refinancing Scheme, Target</th>
<th>Year of establishment</th>
<th>Fund Size, billion BDT</th>
<th>Fund Source</th>
<th>Disbursement, as of June 2018, billion BDT</th>
<th>Number of beneficiaries, till Dec 2018</th>
<th>Fund Type/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Rural Agro-processing</td>
<td>2001</td>
<td>7</td>
<td>BB own source</td>
<td>15.68</td>
<td>2,902</td>
<td>revolving</td>
</tr>
<tr>
<td>2 SEs</td>
<td>2004</td>
<td>8.5</td>
<td>BB own source</td>
<td>36.35</td>
<td>34,496</td>
<td>revolving</td>
</tr>
<tr>
<td>3 New CMSEs</td>
<td>2014</td>
<td>1.25</td>
<td>BB own source</td>
<td>0.203</td>
<td>367</td>
<td>revolving</td>
</tr>
<tr>
<td>4 Islami Sharia, CMSEs</td>
<td>2014</td>
<td>0.5</td>
<td>Shariah-based banks</td>
<td>4.95</td>
<td>691</td>
<td>revolving</td>
</tr>
<tr>
<td>5 JICA-funded, FSPD-SME</td>
<td>2011</td>
<td>3.77</td>
<td>JICA</td>
<td>7.2</td>
<td>880</td>
<td>revolving</td>
</tr>
<tr>
<td>6 JICA-funded, Urban Bldg</td>
<td>2016</td>
<td>2.68</td>
<td>JICA</td>
<td>0.1655</td>
<td>3</td>
<td>revolving</td>
</tr>
<tr>
<td>7 ADB-funded2, SME</td>
<td>2009</td>
<td>7.33</td>
<td>ADB 5.91, GoB 1.42</td>
<td>7.47</td>
<td>719</td>
<td>non-revolving/closed</td>
</tr>
</tbody>
</table>

Source: Adapted from Bangladesh Bank (http://www.bb.org.bd/openpdf.php, retrieved on 29 May 2020)

Under these refinancing schemes, banks and NBFIs can borrow money from BB at bank rate (around 5 per cent), and they are allowed to add a spread of 4 per cent to 5 per cent. That means MSMEs financed under these schemes can get credit at 10 per cent or less. However, these rates see occasional (downward) adjustments, the latest being in the context of COVID-19. It is reported that under the government stimulus package declared in the context of COVID-19, refinancing bank rate and spread are lowered to 3 per cent and 4 per cent respectively, making loans available to MSMEs at 7 per cent. Besides, the fund size of three refinancing schemes has also been doubled – increasing to BDT 15 billion (180 million) for small enterprises, BDT 14 billion (USD 170 million) for rural agro-processing and BDT 1 billion (USD 12 million) for new CMSEs.\textsuperscript{72, 73}

Until now, no SOCBs have availed the refinancing facilities offered by BB because of their high NPLs, above the 10 per cent ceiling set by Bangladesh Bank. Consequently, despite having an extensive rural/suburban branch network, the SOCBs have failed to serve MSMEs at the desired level. However,

\textsuperscript{70} Bangladesh Bank, 2019.
\textsuperscript{71} Bangladesh Bank, 2019.
\textsuperscript{72} Bangladesh Bank, 2020.
\textsuperscript{73} The Business Standard, 2020.
BB recently issued a notification amid COVID-19 that it has relaxed the NPL clause for SOCBs, paving the way for them to take advantage of the refinancing schemes targeting MSMEs.\(^7^4\)

The multiple refinancing schemes are often confusing to banks and NBFIs that intend to use the credit facility, according to consulted stakeholders. Moreover, project-funded refinancing schemes often create an additional administrative burden for staff at BB.

In terms of specific BB credit policies and programmes to support SME access to credit, it has specifically stated that Banks and financial institutions may sanction up to BDT 2.5 million (USD 29,000) to small and women entrepreneurs against personal guarantee, although they do still need to provide a trade license.\(^7^5\) While it is stated as a provision for women entrepreneurs, it is also available for all small enterprises and so not specific to women.\(^7^6\) BB has also introduced the Simplified Loan Application Form in Bengali for SME Entrepreneurs including Women Entrepreneurs. This initiative will reduce some of the difficulties in meeting documentation requirements.\(^7^7\)

### Women Entrepreneurs

BB has established a number of regulatory provisions, policies and programmes to specifically enhance access to finance for women entrepreneurs. These include:

- At least 15 per cent of the total refinance fund is earmarked for the SME sector for women entrepreneurs.\(^7^8\) See SMESP Circular No. -02/2015 Extending Credit Financial Services in favour of Fresh Women Entrepreneurs in Cottage, Micro & Small sector, dated 8/4/15. Women entrepreneurs should be given priority for SME loan and will be entitled to a special facility (low rate of interest) under special consideration.\(^7^9\)
- The interest rate for all small business owners, including women entrepreneurs, is the bank rate (currently 3 per cent) plus 4 per cent, giving clients under BB refinance schemes a 7-per cent interest rate.
- Banks and financial institutions shall take initiative to advertise all the facilities for women entrepreneurs in both electronic and print media.
- Each bank and financial Institution shall establish a special Women Entrepreneurs Dedicated Desk with necessary and suitable manpower, provide them with training on SME financing and suitably appoint a lady officer as chief of dedicated desk. This is based on SMESP Circular No. 01 dated 08/02/2015, in which Banks/Non-Bank Financial Institutions are also advised to set up Women entrepreneur Development Unit (WEDU) at all their Regional Office (if any) with Head Office to strengthen monitoring activities of women entrepreneur’s development.\(^8^0\)
- A certain number of scholarship/grants should be provided to women-led SMEs by the Ministry of Women and Children Affairs (MoWCA), although no data is available on these.
- Special initiatives should be taken by every bank branch to disburse SME loans to the small women entrepreneurs.\(^8^1\)

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\(^7^4\)Bangladesh Bank, 2020, SMESP Circular Letter no.2, 7 May 2020.

\(^7^5\)AFI, 2018.

\(^7^6\)Bangladesh Bank, 2019.


\(^7^8\)[https://www.bb.org.bd/smeportal/wepolicy.php](https://www.bb.org.bd/smeportal/wepolicy.php)

\(^7^9\)Bangladesh Bank, 2019.

\(^8^0\)Bangladesh Bank, 2019 and [https://www.bb.org.bd/smeportal/wedu_formation.php](https://www.bb.org.bd/smeportal/wedu_formation.php)

\(^8^1\)Bangladesh Bank, 2019.
• FIs set a target to find at least three women entrepreneurs who have not taken any formal loans and provide a loan to at least one woman entrepreneur per year, per branch, per bank.\textsuperscript{82}

• As part of the wider monitoring of SME credit there is special monitoring of the banks performance in providing credit to the women entrepreneurs.\textsuperscript{83}

• A policy of group-based lending of BDT 50,000 (USD 590) or above has been initiated to include large numbers of women micro entrepreneurs in SME credit facilities.\textsuperscript{84}

Separate to this, BB has issued a series of policy directives to retail banks to apply simplified due diligence for multiple no-frills financial products for low-income customers who are assessed as lower risk, which includes women entrepreneurs. In scope of this in a directive from 14 May 2014, BB established a no-frills, collateral-free loan product for women entrepreneurs, which is available for up to BDT 50,000 (USD 590) based on personal guarantee only. The no-frills product is separate from the previously noted collateral-free loan product of up to BDT 2.5 million (USD 29,000) which requires both a personal guarantee and a trade license.\textsuperscript{85}

Banks’ aggregate target of 15 per cent of total refinancing provision for women entrepreneurs is monitored by BB, but the current target is currently far from being met. As noted above, FIs set targets to finance women entrepreneurs, however such target settings can have negative impacts, with loan officers attempting to reach targets which are not necessarily to the benefit of the client. For example, according to consulted stakeholders, BB’s monitoring of sex-disaggregated micro and SME sector data uncovered that in many instances, accounts are created in the name of women, but businesses are controlled by men. As a result, women are not actually using and in control of the loans taken out in their name by male family members. As such, BB has an obligation to urgently address this issue from a consumer protection perspective. Moreover, BB needs to be mindful of data quality and take steps to ensure data from regulated institutions more accurately reflects the true ownership and control of the MSME.\textsuperscript{86}

At the same time, there is a clear demand-side need for sensitization to ensure women entrepreneurs understand the consequences of family members taking out business loans in their name. There is also a need for research on the supply side to understand why loans are being taken out in the name of a woman on behalf of another family member, better understanding if it is an issue of supply, an attempt to meet bank targets by loan officers, an endeavor to receive an additional loan under another family member’s name, etc. and take the appropriate measures to curb such client protection risks.

In regard to collateral, the government and regulatory agency have set specific targets to assist women who do not have collateral to get institutional financing. However, consulted stakeholders indicate that the policy of collateral-free credit for women entrepreneurs has not yet been fully operationalized.

The current policy for MSME financing restricts specialization within MSME financing and specifically towards serving women entrepreneurs’ gender-specific needs. There is an untapped opportunity to create policy incentives to encourage the emergence of specialist MSME financing institutions including one that specifically specializes in serving the needs of women-owned MSMEs. Some consulted stakeholders indicated that conventional banks and NBFIs should be given freedom to

\textsuperscript{82} AFI, 2017. and https://www.bb.org.bd/smeportal/wepolicy.php

\textsuperscript{83} Bangladesh Bank, 2019.

\textsuperscript{84} AFI, 2017.

\textsuperscript{85} AFI, 2018.

\textsuperscript{86} Bangladesh Bank, 2019.
choose their own market niche, based on their business goals, resources and capabilities. However, preferential (fiscal, financial and regulatory) treatment and incentives should be provided to those who serve MSMEs to offset the additional costs of serving this segment.

**Agent Banking Regulation**

BB introduced agent banking through a circular issued in December 2013.\(^87\) Subsequently, in 2017, it issued ‘Prudential Guidelines for Agent Banking Operation in Bangladesh’.\(^88\) Agent banking aims to reach out to the unbanked and underserved through agents, appointed by banks though valid agency agreements. According to regulatory guidance, banks willing to launch agent banking business shall formulate an agent banking policy addressing issues such as infrastructure, system and technology requirements. Agents collect information from clients, similar to how banks collect information on clients to fulfil customer due diligence requirements. The information is then passed on to the respective bank, which makes decisions regarding financial services provision to the client. Once approved, the Agent gives documents to the client from the bank, waiving the need for the physical presence of the client in a bank branch.\(^89\)

**Anti-Money Laundering & Counter Financing of Terrorism (AML-CFT) and e-KYC Regulations**

Current regulation addresses the challenges faced by some MSME owners, especially women, in meeting identification requirements to access credit. To verify their identity as part of Bangladesh’s customer due diligence / Know Your Customer (KYC) regime, individual entrepreneurs are required to present either a national ID document, passport or birth certificate, although the exact requirements vary depending on the type of FSP. This is in accordance with section 25 of the Money Laundering Prevention Act (MLPA) 2012, which requires financial institutions to collect complete and correct proof of customer identity, while establishing a business relationship with the potential client.\(^90\) The information is uploaded to the BB system, which allows the Bank to access the individual’s credit history.\(^91\) However, the KYC process is regarded as a lengthy and labor-intensive process. In particular, when it relates to small-ticket loans, the relative transaction cost is high, discouraging the onboarding of small clients, which has adverse implications for financial inclusion.

Bangladesh takes a proportionate risk-based AML-CFT approach to support financial inclusion. As a founding member of the Asia/Pacific Group on Money Laundering (APG), the country has committed to the Financial Action Taskforce (FATF) recommendations on AML-CFT.\(^92\) As a result, based on a directive from 2014, BB has introduced no-frills financial products for low-income customers, including women entrepreneurs, who are assessed as lower risk for AML/CFT purposes.\(^93\) For its no-frills, collateral-free loan product for women entrepreneurs up to BDT 50,000 (USD 590), women entrepreneurs only have to provide a personal guarantee and not a trade license. BB has also encouraged the private sector to reduce the length of required business experience for women to six months rather than the usual two years.\(^94\) Despite its good potential, there has been no research

\(^{87}\) Bangladesh Bank, 2013.
\(^{88}\) Bangladesh Bank, 2017.
\(^{89}\) Bangladesh Bank, 2017.
\(^{90}\) Bangladesh Bank, 2020.
\(^{91}\) The system exists in BB, banks used it to find and verify client credit histories. If no history exists, it is uploaded to BB for processing and indexing.
\(^{92}\) AFI, 2018.
\(^{93}\) AFI, 2018.
\(^{94}\) AFI, 2018.
to date on the uptake of and specific impact of the no-frills account on women entrepreneur’s financial inclusion.

In January 2020, BB published the first guideline on e-KYC aimed at easing up the process of onboarding and retention of customers that are not entitled to the no-frills product. The previous lengthy KYC process involving 12-28 pages along with signature, photo and supporting documents has been simplified with the introduction of the electronic KYC (e-KYC) system. The e-KYC is a one-page-long digital form, in which the thumb print serves as the digital signature. All information is then sent to the Credit Information Bureau (CIB) of BB, where it is processed to create an updated database of credit related information of individuals. The objective of the CIB is to minimize loan defaults by providing reports on credit information to facilitate credit risk analysis by FIs. The process — which also requires the use of National Identification (NID) — enables FIs to make quick decisions on loan applications. However, at present, the e-KYC is allowed for limited scale transactions, ranging from BDT 20,000 (USD 240) to BDT 500,000 (USD 5,900). This policy has been implemented on the back of the recent introduction of biometric ‘smart’ national ID cards as part of the government’s Digital Bangladesh policy. Backed by the ‘done-in-60-seconds’ mantra, the e-KYC system is believed to revolutionize the way customer onboarding happens in the digital financial services industry of Bangladesh. Currently, leading MFS provider bKash, first-mover Rocket, and late-entrant state-affiliated Nagad are all investing in promotion campaigns around this mantra.

Mobile Financial Services Regulation

Bangladesh has a bank-led model of MFS. Its regulation was set out through BB’s Guidelines on Mobile Financial Services for the Banks in 2011. This was subsequently replaced on 30 July 2018 by Bangladesh MFS Regulations. The regulator has only allowed a bank-led, as opposed to a mobile operator-led, MFS model to operate. MFS providers appoint nationwide Agents, also referred to as Retail Agents or Authorized Agents, who are recognized as an entity authorized (by concern bank/MFS provider) to carry out MFS transactions on behalf of the bank/MFS provider. According to the regulations:

1. BB only promotes scheduled commercial bank-led MFS in Bangladesh. The provision of these regulations applies to MFS providers in Bangladesh.
2. MFS Providers act as Payment Service Providers (PSP), as defined in the Bangladesh Payment and Settlement Systems Regulations, 2014. To provide MFS, scheduled commercial banks need to establish subsidiaries with bank or non bank entities as equity partners and obtain a PSP license from the Payment Systems Department of BB. For example, Bangladesh’s leading MFS bKash, is a subsidiary of BRAC Bank Limited.

95 Bangladesh Bank, 2020b.
96 Bangladesh Bank, 2016.
97 Bangladesh Bank, 2015.
98 Zamir Uddin, AKM., 2019.
99 Bangladesh Bank, 2011.
100 Bangladesh Bank, 2018.
101 Bank-led MFS is a model where a bank may run the MFS as a product of the bank or a bank may form an MFS providing subsidiary with at least 51 per cent of the share held by the bank with control of the board. The alternative model, mobile operator-driven model, is also used in several countries across the world.
102 Bangladesh Bank, 2018.
103 Bangladesh Bank, 2014.
104 Bangladesh Bank, 2018.
BB has approved various MFS products targeting MSME operations. These include inward foreign remittances, salary disbursement, merchant payment, m-wallets, private-to-private (P2P), and business-to-private (B2P).105

Demand-side Support

MSME preparedness is a key demand side constraint in access to finance and a major reason for modest MSME financing record in Bangladesh. This includes poor business planning, absence of documentation, lack of or incomplete financial or transaction records, lack of entrepreneurial acumen, and poor business management skills. While these constraints are true of many entrepreneurs regardless of gender, women-entrepreneurs can experience these constraints more than men due a range of factors, including barriers to accessing educational or training opportunities.

Public sector support exists to address demand-side constraints to MSME financing. The government has created various initiatives, including dedicated MSME capacity building entities, to support services and one-off projects that address human capacity development. Dedicated MSME development facilitating agencies include the SME Foundation and BSCIC (Table 7). In addition, various government agencies offer generic and sector-specific training for the youth and women, and other support services, including credit and credit facilitation.

The role of facilitating agencies, as well as industry associations and chambers, is crucial for MSME competitiveness in general, and for accessing finance in particular. Given that most of the MSMEs are not finance-ready, there needs to be a robust mechanism in place for building MSME capacity and linking them with financial services providers, technology providers and markets. Unfortunately, the current approach to MSME development is not comprehensive, if not largely underdeveloped. This too has contributed to the existing financing gap.

Table 7
Examples of Facilitating Agencies Providing Demand-side Support

<table>
<thead>
<tr>
<th>Mandate</th>
<th>Services</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bangladesh Small and Cottage Industries Corporation (BSCIC)</strong></td>
<td>• Entrepreneurship training and advising, development of physical infrastructure/industrial estate, • credit operation and facilitation, • technical assistance to new industrial units, project proposal development, • design/prototype assistance, • technology adoption, • research and studies, • CMS enterprise registration, • regulatory and policy advisory support.</td>
<td>Between June 2017 and February 2018, total loans disbursed through BSCIC (own fund and banks/FIs): BDT 2.03 billion. BDT 0.65 billion went to medium enterprises, BDT 1.02 billion to small enterprises, and BDT 0.36 billion to cottage enterprises. In FY 2018, 17,844 individuals were trained at 759 training courses.106</td>
</tr>
</tbody>
</table>

105 While the definition of MFS refers to e-money services provided through the mobile/cell phone number of a client (termed as Mobile Account), where the record of funds is stored on the electronic general ledger, these services can be drawn-down through specific payment instructions issued from the bearer’s mobile phone, or through an alternative digital process or device by ensuring authenticity of the transaction. However, unlike e-money products, ‘cash-in’ and ‘cash-out’ and other services as permitted by Bangladesh Bank at agent locations are allowed for MFS accounts and the account maintained by MFS providers with scheduled commercial banks for operational purposes other than custody or settlement.

106 BSCIC
SME Foundation (SMEF)

Promoting growth of small and medium enterprises of all production and service-oriented sectors.

- Credit wholesaling
- SME financing fair
- Entrepreneur training programs delivered through public-private partnership with training institutes and SME industry associations. Topics include: access to finance, access to technology, business support services, cluster development, ICT for SMEs, and policy advocacy.
- Training of trainers (TOT) and capacity building workshop for trade bodies and SME related associations
- Program on women entrepreneurship development
- National Women Entrepreneur Award
- matchmaking fairs for women entrepreneurs.

Through SMEF’s Credit Wholesale Programme (CWS), it has disbursed collateral free loan of BDT 575 million at 9 per cent (single digit) rate among 1,200 MSEs, including 450 women-led ones (as of April 2017); 73 per cent of the credit was reported to be used to augment working capital base.\(^{107}\)

Starting with 18 training programs in FY 2010, it reached 85 in FY 2016.\(^{108}\)

Stakeholder feedback indicates that the current supply of demand-side support is supply rather demand-driven, and primarily skills-based. What is mostly missing is to accompany skills training with business development services (BDS), as the lack of business skills of many MSME entrepreneurs is a significant obstacle to their access to finance.

Existing issues and gaps in the provision of services to the demand side of the market include the following:

- Entrepreneurship-focused training to meet demand-side needs on topics such as corporate governance and accounting. The Global Impact Investment Network (GIIN) has noted that impact investors find companies that often maintain more than one accounting book and lack sufficient governance structures to meet investor needs. Furthermore, they often lack understanding about equity instruments, are unwilling to dilute their ownership through equity investments or legally register their business to receive equity instead of debt.\(^{109}\)
- Partnerships with banks and NBFI’s to couple training with financial services.
- Training and support of women entrepreneurs to integrate into national/global value chains.
- Women-targeted incubation support for high growth potential women entrepreneurs.
- Lack of a holistic and coordinated effort between MSME facilitators due to role-overlap. For example, both SME Foundation and BIDA are currently offering entrepreneurship training – the former from its programmatic angle, and the latter under a project. Coordination and/or collaboration between the two, and arguably beyond, could make the intervention not only more effective, but also sustainable.
- Mentoring support, in particular for women entrepreneurs.
- Business plan competitions.

\(^{107}\) SMEF
\(^{108}\) SMEF
\(^{109}\) Dalberg, GIIN, UK AID, 2015.
Operational support services to provide MSMEs with access to human capital to support their growth to meet the needs required to access finance.

There are also gaps in information about the geographic distribution of incubation support throughout the country, their sector focus and the product offerings of incubators – including if they offer seed funding in the form of debt, grants, equity or alternatively credit support – as well as the stage of business development they target entrepreneurs (e.g. business idea, proof of concept, early stage, growth stage). Closing this gap in information will support policy makers to better target modalities of support in sectors and geographies where MSMEs need it most to enable their access to finance. All stakeholders noted that these demand-side issues need to be addressed through capacity building undertaken by business development and demand side support agencies.

Future opportunities include:

- A strategic review of support provided by the Department of Women Affairs (DWA) to expand its traditional training for women entrepreneurs and focus on higher growth entrepreneurship opportunities for women including sensitization on access to alternative finance.
- For the Department of Youth Development (DYD) to partner more with other public agencies to leverage its extensive human and physical infrastructure for MSME training given its operational presence in all 64 districts and 496 upazilas, including 10 metropolitan thana offices. DYD has 71 Residential Youth Training Centres as well as many non-residential training centres in all 64 districts with a large staff of 7,185.
- Training partnerships with public or private organizations with Business Development Support (BDS) expertise: banks and NBFI; trade license issuers or utilities providers, and regulators. This will help entrepreneurs establish useful linkages with market actors, facilitators and regulators, and ecosystem players will better understand the needs and challenges of potential entrepreneurs and MSMEs. A good model is SMEF’s initiative to link its beneficiaries (e.g. training participants) with banks and NBFI engaged with its credit wholesaling (pre-financing) scheme. According to SMEF, the result has been encouraging with a low incidence of non-performing loans (NPL). Such models can be scaled up and replicated by others.
- Orientation training of regulators on MSME including women-owned MSME challenges and realities and financing demands.
- Online training and incubation support including on the value of equity investments.
- Tailored capacity building support for MSMEs operating as social businesses seeking impact investments.

Lending Infrastructure

Credit Registries

Bangladesh has both public and private credit registry facilities. BB’s Credit Information Bureau (CIB) is the public credit registry system responsible for the collection, processing and maintenance of an updated database of credit-related information supplied by regulated financial institutions that extend credit. While the CIB registers all MSME credit transactions conducted through banks or Non-Bank Financial Institution (NBFI), it does not include informal credit transactions such as from individual sources and credit unions.
Until recently the CIB only included credit information on individuals and firms for loans larger than Tk 50,000 (USD 590) or outstanding credit card debt larger than Tk 10,000 (USD 120). However, in April 2018 a circular set out the requirement that credit information on all outstanding loans of Tk 1.0 and above were required to be registered into the system. The reduction in the loan size eligible to be recorded in the system is a welcome development to support women’s entrepreneurs’ financial inclusion, in a context where women face greater restrictions on accessing bank credit and are more likely to apply for smaller loans.

It is unclear whether CIB sex-disaggregates and analyses its credit information on the basis of SME ownership, but there is international recognition of the value of credit bureau’s collecting sex-disaggregated data to support access to credit for women and women-owned SMEs. As such, this practice should be encouraged.

In 2017, BB and the Micro Credit Regulatory Authority (MRA) signed an MOU to establish a Microfinance Credit Information Bureau (MF-CIB) with support from the UK’s Department for International Development (DFID), to improve the credit worthiness of micro and small businesses in order to reduce the cost for financial institutions to invest in them. Up until this development there has been no centralized public register of credit delivered by MFIs and MFIs could not access a comprehensive credit profile on their clients. Consequently, the MF-CIB is a positive development to support bankers to better assess the credit worthiness of women entrepreneurs, who are the main clients of MFIs. This is in a context where their credit histories are not generally captured by the existing CIB dataset, and their good payment histories have not translated into good credit scores restricting their access to credit. The MF-CIB will collect credit information on microfinance borrowers, house credit histories of clients and generate credit reports. A draft guideline Microfinance Credit Information Bureau Rules, 2019 on the MF-CIB operating procedures was published for public comment in September 2019 and is still open for comment. In August 2020, the Microcredit Regulatory Authority (MRA) issued a legal framework for setting up Microfinance Credit Information Bureau (MF-CIB).

Credit Ratings Agencies

Internal and external credit ratings agencies operate in Bangladesh. In 1995, Bangladesh Securities and Exchange Commission (BSEC) established the first credit rating agency - Credit Rating Information and Services Limited (CRISL). It later enacted the Credit Rating Companies Rules 1996 to oversee credit ratings in Bangladesh. Since the passing of the rule several credit rating agencies have entered the market.

Alternative Credit Scoring

Alternative credit scoring models have emerged that use different information and criteria to assess a client’s ability to repay. Increasingly technology is being used to support these processes, drawing on data around payment history such as utility and mobile phone bills among, data scraping methods, proprietary algorithms and other sources to make lending decisions, as opposed to the loan officer’s decision. These methods not only speed up the loan process but can also reduce the cost and risks associated with default. For example, ShopUp utilises data from 25 different sources to appraise the credit eligibility of small businesses operating on Facebook. It has partnered with Brac International and Brac Bank to provide credit to MSMEs. Its model overcomes the issue that online

111 MRA, 2019 a, b.
114 https://shopup.com.bd/home/
transactions such as orders and payments are often not formalised which means that businesses lack financial documents required to apply for loans. Overall, the emergence of alternative credit scoring presents opportunities for women. Given that women-owned MSMEs are less likely to have formal credit histories, and more likely to operate informally, innovations used by ShopUp and other new forms of credit scoring are a positive market development that can serve to benefit all entrepreneurs, particularly women entrepreneurs’ access to credit.

*Credit Guarantee Scheme*

In 2020 Bangladesh launched a credit guarantee scheme and published a Manual of Credit Guarantee Scheme in November 2020. In 2019 and the NFIS-B had firmly set out the government’s plan to establish a credit guarantee scheme for SMEs although the idea to establish such a scheme has been circulating for some time.

A credit guarantee scheme targeting women entrepreneurs was recently piloted by BB, in collaboration with financial support of USD 200,000 provided by the United Nations Capital Development Fund (UNCDF) from October 2016 to June 2019. Under this scheme, a total number of 12 guarantees have been issued against BDT 11.1 million (USD 130,000) in 12 different clusters in eight districts of Bangladesh. The impact of this pilot was still under evaluation at the time of drafting, but it is anticipated to provide potential lessons for the national credit guarantee scheme.

*Collateral Laws and Secured Asset Registries*

In 2018, BB began the process of recognizing movable properties as collateral against loans from the banking system under the Secured Transaction Act (Movable Assets). Under the anticipated law, furniture, gold, motor vehicles, computers, patents, goodwill, copyrights and other tangible and intangible assets will be considered collateral. The forthcoming act will create a Secured Transaction Registration Authority, which will create a data warehouse to register movable assets. The implementation of the act is being supported by the IFC. Currently, banks and financial institutions only accept immovable collateral such as property and land which can constrain many entrepreneurs from accessing credit, and in particular women, who generally have fewer assets due to customary practices related to inheritance and discrimination in the property and land registration process.

The secured transaction act holds promise for women entrepreneurs’ access to credit. Given that few women entrepreneurs in Bangladesh have independent access to traditional forms of collateral and in turn struggle to meet the collateral requirements of banks, the acceptance of moveable collateral is a positive development. For example, sons and daughters do not have equal rights to inheritance in Bangladesh and nor do female and male surviving spouses have equal rights to inherit assets. Indeed, it is internationally recognized that the creation of moveable collateral registries can provide a mechanism to support the financial inclusion of women owned and led enterprises.

*SMEF’s Credit Wholesaling*

The Credit Wholesaling (CWS) Program is an innovative specialized credit support program run by the SME Foundation. Established in 2007 with a BDT-2.0 billion (USD-24 million) endowment fund, the program has been in operation since 2009. It is run through partner financial institutions (PFIs) and its overarching objective is to channel collateral-free low cost (single digit interest rate) funds to

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118 IFC, 2016.
119 World Bank, 2020b.
target MSME clusters/groups/clientele by encouraging and incentivizing FIs to provide access to a formal source of credit to the ‘missing middle’. In 2010, the CWS started funding the Light Engineering cluster of Bogura in collaboration with MIDAS Financing Ltd. Since then, more than BDT 845 million (USD 10 million) has been disbursed to 1,754 enterprises, of which 29.1 per cent are women-led. These MSMEs come from 10 clusters and three clientele groups. The funding is disbursed through 12 PFIs, ten banks and two NBFIs. Non-financial support in the forms of capacity building and quality development of the beneficiaries, as well as close monitoring, have been the hallmarks of CWS’s interventions.

An impact study done by BIBM (2019) found that the CWS program has largely been a successful intervention. The study reports:

“... major beneficiaries agreed that the interest rate offered under CWS loan was low, and terms and conditions were easy and flexible for them. They added that there was no collateral requirement of the loan. However, few beneficiaries stated that they had to start repayment immediately after disbursement of loan as there were no grace period. [Also], the size of installment was [considered to be] large [as] loan size was between BDT 50 thousand (USD 590) to BDT 2 million (USD 24,000). ... Although [majority of the] beneficiaries considered the interest rate to be low, some of the respondents [considered it to be rather] high.”

The impact study further reports that SMEF’s role as a catalyst, reduced MSMEs’ hesitation in approaching banks and NBFIs for loans. SMEF Partner financial institutions (PFIs) have received a pool of prospects through the SMEF which made them more confident in their financing decisions. Besides SMEF’s role as a financing catalyst, it played a significant part in bridging the confidence gap between the demand for and supply of MSME financing.

**Debt resolution**

Debt resolution is a challenge for MSMEs. They can find themselves in a situation where they are unable to repay loans. BB has a Debt Management Department but it is unclear whether it provides a debt resolution scheme to help financially distressed MSMEs to restructure or reschedule loans and whether its involved in the process. Currently, though the Small Cause Courts Act, 1887 (Act No. IX of 1887), is used to settle disputes and recovery of loans to small enterprises. The World Bank has recently called for Bangladesh to institutionalize Alternative Dispute Resolution mechanisms for commercial dispute settlement, which is recommended.

From a demand side, there are gender-specific issues facing women’s businesses related to contract enforcement, access to justice, conflict resolution and the overall legal risk of doing business. Moreover, there is some indication of lower levels of legal literacy among women owned and managed businesses, including in terms of handling commercial disputes such as non-payment by customers and other breaches of contracts, are noted to have implications for their businesses.

**Summary**

In sum, there are a broad range of entities operating in the MSME ecosystem within Bangladesh, with diverse and intersecting policy and regulatory approaches and technical support areas. Yet there are also overlapping roles and responsibilities and obvious gaps that need to be addressed for

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120 Stakeholder consultation with SMEF.
121 Ibid.
122 AFI, 2016.
123 Government of Bangladesh, 1887.
125 DCED, 2016.
greater coherence in terms of alignment of policies and implementation approaches. As such, there is a clear and an identified need for greater policy and technical coordination for the market system to operate more efficiently to support MSMEs. Drawing on international experience, Bangladesh could create an entity with political convening power at the highest level to ensure greater coordination—an idea elaborated on further in the recommendations.

Figure 10, at the beginning of this section, shows the complex MSME finance ecosystem and its operating relationships. Below, Figure 11 further demonstrates at a high-level, where these players fall within the financial ‘market system’ in terms of their roles, responsibilities, and oversight functions. The below diagram is further meant to demonstrate that poor performance in one area of the market system, for example lack of information, can impact the entire market system and how the players interact and function. Bangladesh’s market system is complex and therefore strong coordination among all players is required.

**Figure 11**
Bangladesh MSME Finance Market System: Key Market Functions and Players

Source: Author’s analysis

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126 Components of the market system include the core market, supporting functions and rules, the approach allows for a segmentation and understanding of the underlying causes of poor performance in a specific market, which can be addressed to create large-scale impact. Reference: Beam Exchange.
3. Policy Recommendations for Improved MSME Financing

This study has analyzed the present situation of MSMEs’ access to finance in the current policy framework, gaps in financial inclusion of MSMEs, with special attention to women-led MSMEs, and some of the key issues and barriers impacting the supply of, and demand for, MSME finance.

It has highlighted the issues of coordination and a lack of joined up action between the many institutions that focus on MSME financing and development. This has in part contributed to the large MSME financing gap, in particular for women entrepreneurs. This is despite the significant well-intentioned regulatory measures by BB to support women entrepreneurs, as well as transformational regulatory developments for MFS and agent banking and efforts to stimulate the flow of venture capital. Furthermore, despite the proliferation of facilitation services by extension agencies, there is still a mismatch between demand-side needs and provision, and an absence of analyses and tailored support to meet women entrepreneur’s demand-side constraints to MSME financing.

All in all, the result is that with some notable exceptions, banks and NBFI are generally not meeting BB’s MSME financing expectations and the current provision of bank and equity products are not meeting MSME needs. Moreover, the existing supply-side provision beyond that provided by MFIs is not sufficiently customer-centric to address gender-specific demand-side constraints to financing faced by women entrepreneurs. Furthermore, while MFIs have successfully extended credit to rural and semi-urban women, this is at a high cost and has not enabled the formalization of these enterprises, with negative implications for their access to larger ticket financial support.

Nevertheless, this study has also highlighted an opportunity to leverage the new policy developments vis-à-vis the NFIS-B and SME policy, with a greater sense of urgency in the post-Covid context, to bring greater coordination and direction to MSME financing efforts. This is against the backdrop of the increasing potential for digitalization, strengthening infrastructure and the potential for better and greater data-availability to inform more targeted financial service provision to MSMEs.

In light of the findings, the following recommendations are proposed for national policymakers and other stakeholders, including development partners, to improve the access to and usage of quality financial services by MSMEs, and in particular those owned by women:

A. Create a central coordinating agency (CCA) for MSMEs under the Ministry of Industry to enhance policy coherence.

A central coordinating agency for MSMEs can be established under the Ministry of Industry with dedicated staff and financial resources to coordinate all government agencies and private sector entities with responsibilities and mandates for MSME financing and development. The establishment of this CCA could lead to improved inter-agency efforts to co-implement a collective entrepreneurship development and MSME competitiveness agenda. Specifically, this may involve co-strategizing a shared MSME national strategic vision (MSME-NSV) in line with other national policies (e.g. SGD 2030, Vision 2041 and Delta Plan 2100 and the NFIS-B).

In addition to the proposed CCA, it is recommended that a new policy committee is created at the highest level of government to set up new policies and oversee the implementation of existing policies for the MSME sector. Similarly, to the approach taken in Malaysia with its National Entrepreneur SME Development Council (NESDC), the proposed new policy committee would be chaired by the Prime Minister and include as members all the relevant Ministers and the Governor of Bangladesh Bank. This policy committee would use the proposed CCA as its secretariat. The leadership of the Prime Minister as Chair of the proposed policy committee would ensure that the CCA has sufficient political authority over the various constituent agencies to ensure policy
coherence, as well as an effective and agile implementation of policies and programmes. An important aspect of the work of the CCA would be to promote and coordinate partnerships among different agencies to overcome problems of role overlap.

**B. Incentivize the digital integration of MSMEs as an on-ramp for formalization**

MSMEs can actively be incentivized to become digitally integrated and digitalize their financial transactions – indeed COVID has sped up the need for this transformative process. Digital transformation will bring operational efficiency to financial service providers, thereby helping to drive down the cost of funds for MSMEs; enable the regulatory authorities to undertake real-time data monitoring of its programs and schemes and inform data-driven evidence-based policy decisions; improve transparency and good corporate governance of MSMEs; and support the delivery of the Government’s Digital Bangladesh vision.

Digital financial footprints can be used by MSMEs to provide evidence of their credit worthiness, and support lenders to make sound financing decisions, and it will improve MSME governance and transparency. At a micro level, it will make financing decision-making processes faster, cheaper, and more accurate, in turn improving FI’s operational efficiency and reducing transaction costs. These benefits are likely to be transferred to MSMEs through lower interest rates and more timely disbursements. Furthermore, digital data on MSME performance will build the business case for financial institutions to better serve MSMEs. At the macro level, the digital integration of MSMEs will generate big data that regulators and facilitators can use to make sound data-driven policies, regulations and interventions for specific MSME segments and to track the success of their policies, schemes and incentives. This, in turn, will support the implementation of NFI-B strategic priority 1 target 10, namely to introduce the usage of artificial intelligence and machine learning for credit scoring and monitoring through big data analysis.

The feasibility of public-private partnerships (PPP) to support the digital integration of MSMEs may be explored. For example, an approach to support the digital integration of conventional MSMEs would be to support digital market linkages through e-market platforms operated by private or public sector entities. Moreover, a sector to prioritize for digital integration and formalization is social media marketing such as Facebook commerce (f-commerce). Young social media entrepreneurs – many of whom are women\(^{127}\) – constitute an ideal cohort of future formal sector entrepreneurs. Most of these entrepreneurs currently do not have a trade license, which limits their access to finance and their growth potential. In turn there are opportunities to pilot the development of gender-responsive alternative credit scoring mechanisms within these target segments.

Another approach to achieve the goal of digital integration of MSMEs is the formalization of informal MSMEs. To enable this, it is recommended that the business formalization process is simplified, and the documentation requirements and the costs involved reduced. The regulators may consider, for the case of micro and small enterprises (MSE), accepting the National ID card (NID) in place of a provisional trade license for their first three to five years of operations. There is also an opportunity to enhance the MRA’s national database by incorporating small and medium enterprises along with microenterprises. This database would be crucial not only in monitoring, but also in strategizing and crafting MSME-specific policies, incentives and interventions.

Furthermore, in scope of the digitalization of lending infrastructure there is the opportunity for improved gathering and using sex disaggregated data within scope of the new M-CIB and the upgraded CIB to a fully-fledged credit registry.

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\(^{127}\) IDLC, 2019.
C. Build the business case for financial institutions to adapt to provide tailored support to MSMEs and Women Entrepreneurs

There is the opportunity to build the business case of serving the MSME market, and in particular women-owned MSMEs, among financial institutions that have the potential to become specialists in MSME financing. Building the business case can facilitate the uptake of the proposed new tailored products for the MSME market segment in line with the NFIS-B.

Building the business case will require engaging the boards and senior management of FI’s to seek their buy-in to such a strategy. There is additional scope for peer-to-peer (P2P) learning and sharing good practices among institutions within and beyond Bangladesh. Government agencies and development partners can leverage the experience of Brac Bank and City Bank – members of the Financial Alliance for Women128 – to build the local business case for MSME banks to specialize in serving women entrepreneurs. This includes the case for tailoring their MSME financial products to women and incorporating non-financial support that addresses their gender-specific MSME financing constraints.

Technical assistance can be provided to FSPs to conduct customer journey research drawing on disaggregated customer data to generate data to build the business case and inform customer-centric product development, marketing, delivery channels and customer servicing. This aligns with the NFIS-B objective 2 of spurring the development of tailored products for different market segments, as well as boost the availability of disaggregated data in line with objective 6. There is scope to provide technical assistance to support financial institutions to enhance their institutional gender policies and the enabling environment for women employees, including those working on the currently mandated women’s help desks.

D. Create policy incentives for financial institutions to specialize in MSME financing and the women-owned MSME segment

The government, BB and development partners can encourage the specialization of financial institutions to serve the MSME market. Incentivizing some FIs to specialize in MSME financing will encourage the development of institutions that commercially seek to serve the MSME and women-owned MSME market segment. This specialization will support the effective implementation of proposals identified in the SME Policy 2019 and the NFIS-B to establish tailored products and services for MSMEs. It would also confer benefits to BB through reducing the monitoring burden of requiring all institutions to meet MSME financing targets, and it will allow FIs greater operational efficiency by permitting them to make strategic choices regarding their market niche and value proposition based on their capabilities, leadership mindset, and values. It will also help to prevent issues of predatory lending to meet targets or mislabelling loans as women enterprise loans, in cases when a male family member may have decision making power over the loan use.

BB could remove the regulatory requirement that all financial institutions have to annually meet MSME lending targets, including to women-owned enterprises. While well intentioned, the existing requirement has not delivered the intended impact of MSME development or closed the gender access to finance gap facing women entrepreneurs. A change in the regulatory requirements would provide the freedom for some FIs to specialize in and orientate their value proposition to specific MSME market segments. This could be based on factors including their geographic reach, capabilities, and resources.

To address the risk that MSMEs will continue to be underserved, incentives could be offered to those FIs that specialize in lending to or solely target MSMEs and/or women-owned MSMEs. In addition,

128 https://financialallianceforwomen.org/
SOCB’s with a significant rural and suburban presence and SBs with a sector-specific mandate could still be required to meet MSME portfolio targets as they have a stronger footprint than PCB’s and NBFIs in these areas. Likewise, non-scheduled banks may also be incentivized to fund rural MSEs at the base of the pyramid which lack access to private banks.

E. Build the capacity of facilitating agencies in MSME Promotion and Business Development Support (BDS) to provide more tailored support to MSMEs and Women Entrepreneurs

There is scope to build IT enabled incubation service provision in different geographic regions within Bangladesh to address the fact that large number of MSME-applicants are not finance-ready and require BDS on business registration, taxation, trade licenses, financial record keeping, business plan development, plus awareness raising on equity investments and other financing options. This could include mentoring by technical experts or experienced entrepreneurs on different aspects of their business model, such as revenue models, distribution, legal matters (e.g. handling non-payments, contract breaches) and sales and marketing. This would support financial literacy of entrepreneurs (NFIS-B objective 5).

There is an opportunity to build the capacity of existing incubators, as well as shape newly established Start Up Bangladesh to ensure their incubation and investment business models address women’s entrepreneurs’ gender and business sector specific needs and constraints to MSME financing and BDS. Incubation or acceleration support can be tailored to specific economic sectors such as women-owned f-commerce ventures. Moreover, initiatives to support incubators can support women entrepreneurs to establish or scale fintech enterprises in line with NFIS-B priority 6 to upscale digital financial services and fintech. Women-only incubation initiatives that address women’s significant mobility constraints and access to technology and other gender-specific BDS needs are to be encouraged.

F. Promote Alternative Finance and Gender Lens Investing

Small cap equity, venture capital, crowdfunding and angel investment have significant potential to flourish in Bangladesh. Yet, on the supply-side, there is a need for awareness raising activity among equity investors/ VC firms on the commercial case to extend venture capital specifically to women’s entrepreneurs. In doing so, there is scope to build awareness of the what and why of gender-lens investing and how investors can apply such a lens to both their commercial and impact investments. In doing so it will be important to note that there are a variety of criteria and gender-lens investing strategies that can be applied (e.g., a focus on enterprises that are owned by women; businesses that seek to deliver products and services to women and girls or that advance gender equality; and/or that incorporate a focus on advancing women’s participation in their workforce). As part of this there is a need to generate an action plan to stimulate the gender-lens investing ecosystem in Bangladesh, including establishing baseline market data on the number of women as investors equity and angel investors, impact funds that apply a gender lens, women as recipients of alternative investments or that have listed their SMEs on the DSE SME Platform, and that have received grants or other forms of financing from Start Up Bangladesh. Implementing such initiatives can support the implementation of the NFIS-B target to diversify financing instruments and financing options for MSMEs.
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## Annex 1: Financial Products for MSMEs and Women Entrepreneurs by Banks and NBFIs

<table>
<thead>
<tr>
<th>FI &amp; Product</th>
<th>Nature and interest rate</th>
<th>Loan limits and period</th>
<th>Other benefits, facilities and conditions</th>
</tr>
</thead>
</table>
| IDLC- Purnota | Short/long term loan for fixed asset purchases | BDT 300,000 to 3.5 million (unsecured)  
Loan Tenure: 13 to 60 months  
Flexible repayment based on cash flow of business | business facilitation service,  
Purnota helpline,  
Purnota training center,  
Purnota insurance support,  
Purnota digital marketing  
Loan up to BDT 5 million offered at 9% interest rate, under Bangladesh Bank refinancing scheme |
| Islami Bank: HPSM, Bai-Murabaha, Bai-Muajjal, Musharaka, Mudaraba. | Term Investment:  
Working Capital:  
Trade Financing: | Up to BDT 3 million (for single entrepreneur)  
HPSM: Maximum 05 (five) years  
Bai: Maximum 01 (one) year  
Musharaka/Mudaraba: 06 (six) months depending on nature of items | SME clusters focused Agriculture focused  
@ 12% or fixed by HQ  
Security depends on the nature of business, modes and amount of investment. Collaterals may not be required for an investment of up to BDT 0.50 million |
| BRAC Bank: TARA SME Loan | Term loan (for fixed asset purchase and business expansion), working capital, commercial vehicle purchase, import & export financing | BDT 300,000 to 10 million  
Term loan @ 9% interest rate, up to BDT 5 million | No processing fee  
Personalized support  
Exclusive discount offers from lifestyle, restaurants and health partners  
Networking and capacity development events  
Minimum one year in operation) under sole proprietorship, partnership or private limited company |
| City Bank: City A | Competitive interest rate for all different categories of city alo products (also available to woman salaried employees, homemakers and women professionals) | BDT 300,000 to 2.5 million (unsecured loans)  
BDT 1 million to 20 million (secured loans)  
Term Loan:  
12 to 60 months  
Unsecured Loan :  
12 to 36 months  
Single Installment Loan:  
3 to 9 months | Lower interest rate  
No processing fee for women SME  
City Alo certification program  
Online networking platform  
free insurance  
health card with discounts at clinics and hospitals  
Quick approval process |
| IPDC -Joyee | Term loan @ 8% for business expansion, fixed asset purchase and working capital | BDT 300,000 to 5 million, at an interest rate of 8 percent with a repayment period of two to five years | Plans to disburse 30 percent of its total loans to women entrepreneurs by 2030. More than three year old trade license: Sole proprietorship |
| Bank Asia: Suborno | Term loan at attractive interest rate, for business expansion and fixed asset purchase | BDT 200,000 to 800,000 (collateral free)  
BDT 800,000 to 5 million (with collateral) | Personalized support  
Minimum two year old valid trade license: Sole proprietorship /partnership/private limited company |
| --- | --- | --- | --- |
| IFIC-PROTYASH A | Term Loan/ Overdraft/ Demand Loan | Up to BDT 2.5 million, collateral free (condition applies)  
BDT 2.5 million - 5 million (with collateral)  
Max. 60 months for Term Loan. Max. 12 months for overdraft | Personalized support  
@ 9.00% p.a. with quarterly rest, subject to availability of Bangladesh Bank refinance. Minimum two years in business |
| DBBL Smart Women | Term Loan | BDT 100,000 to 1 million  
Clean (condition applies): Up to BDT 2.5 million | Personalized support |
| Bank Asia - Subarno | Term Loan | Without collateral:  
BDT 200,000 to 800,000  
With collateral:  
BDT 800,000 to 5 million | Personalized support |
| UCB - Jyoti Dipti | Overdraft Lending Product; Terminating Lending Product | Up to BDT 5 million | Personalized support |

*Source: Compiled by Morshed, S.F. and Jahan. S.M, based on documents relevant banks and NBFI*s
Annex 2: List of Organization’s Interviewed

Bangladesh Association of Call Centers and Outsourcing (BACCO)
Bangladesh Bank
Brac Bank
Bangladesh Finished Leather Exporters Association (BFLLEA)
Bangladesh Institute of Bank Management (BIBM)
Bangladesh Institute of Development Studies (BIDS)
Bangladesh Women Chamber of Commerce and Industries (BWCCI)
Dhaka Bank
Dhaka Chamber of Commerce (DCCI)
Dutch Bangla Bank (DBBL)
Exim Bank
IDLC (Leasing)
IPDC (Leasing)
MIDAS
National Association of Small and Cottage Industries Bangladesh (NASCIB)
Projekt.co
United Commercial Bank (UCB)
SME Foundation
ShopUp
Bangladesh Credit Rating Agency Ltd. (BDRAL)
United Nations Capital Development Fund (UNCDF)