

FINANCING INCLUSIVE AND EQUITABLE GROWTH

Business Finance for the Poor in Bangladesh (BFP-B) and The Daily Star jointly organised a roundtable titled "Facilitating Convenient Access to Finance for MSEs in Bangladesh: Early Signs of Impact of Challenge Fund Projects" on June 12, 2017. Here we publish a summary of the discussions.



Feisal Hussain, Team Leader, BFP-B
BFP-B is a 5-year DFID funded programme, implemented by Nathan in association with OPM under the overall direction of Bangladesh Bank (BB) and Financial Institutions Division (FID) of the Ministry of Finance (MoF).

BFP-B aims to contribute to inclusive and equitable growth by accelerating financial inclusion, especially by triggering expansion of private sector investments in and by micro and small enterprises, enabling more responsible credit to be used by micro and small enterprises. The BFP-B projects are doing this at the macro level by creating more enabling financial sector policies and regulations to support micro and small enterprises; at the meso level by supporting innovative financial infrastructure for responsible credit enhancement; at the retail level by incentivising financial institutions to co-invest in innovative business models targeting micro and small enterprises. Our today's session primarily focuses on the retail level engagement of the project.



Dr. Mustafa K Mujeri, Executive Director, Institute for Inclusive Finance and Development (InM)
Challenge Fund is something more than just a matching grant facility from a number of perspectives. It aims to test new approaches and trigger innovation in the financial sector, by absorbing some of the financial risk. This facilitates implementation of new business models or technologies that combine commercial viability with high social impacts. There were a total of 16 projects from the first two rounds of the Challenge Fund, with a total commitment of nearly GBP 7 million.

In today's roundtable we will listen to several grantees of the first and second rounds. These projects have already started showing early signs of impact. The models to be discussed today cover a wide range of subjects covering weather based insurance, agent banking, mobile money and other potential technologies that can rapidly advance financial inclusion in Bangladesh.



Md Arfan Ali, Managing Director, Bank Asia Ltd.

Bank Asia have launched a project called 'Diganta' with the financial support from DFID. This project is helping us in two ways. First, through our agent banking unbanked people are getting the opportunity to have a bank account and second, we are also making finance available to them to fulfill their dream. We have set a target to reach 10,000 entrepreneurs with an amount of Tk 3 billion fund to be disbursed. We have been working on it for the last one and a half years. Currently we are operating through 1228 agent points all over the country. We have digitized the lending process and introduced first ever tab based lending solution in the country. This platform has helped us to increase our reach and at the same time reduce the cost. It also has established transparency and expedited the finance process by reducing the turnaround time.



Syed Moinuddin Ahmed, Additional Managing Director, Green Delta Insurance

Green Delta (leading insurance company) have developed a model that follows a satellite-based weather database. We have collected weather data of the last 35 years from the Bangladesh Meteorological Department. We tag it with international satellite data services which helps us to forecast the weather of any place in the country. Our weather index based insurance insures farmers for damages during bad weather such as cold days and excessive rainfall. We have successfully implemented this insurance project in various areas. We are exploring insurance opportunities for various types of crops such as jute, tea, industrial potatoes, cassava and so on. We will have enough information by the end of these pilot projects in 2019 in order to make the agri-insurance project commercially viable.

Business Finance for the Poor in Bangladesh (BFP-B) to catalyse an additional GBP 1bn of loans to micro and small enterprises in Bangladesh to support inclusive growth and graduation



Md. Abul Kashem Khan, Senior Executive Vice President & CTO, Dutch Bangla Bank Ltd.

We started agent banking services in 2015. Initially we faced two challenges: availability of service to unbanked people both in urban and rural areas and profitability of the agents who would work for the bank. In the entire year of 2015 we were able to create only 160 agent outlets throughout the country following central bank's guidelines. We have been providing incentives to motivate the agents from the joint fund of DBBL and the Challenge Fund. We provide them with support in their initial investments of setting up offices and Bank is investing huge amount. To make banking facilities available for rural people we had to create intermediaries who would support the distribution model to enable service availability like cash & fund management at any time throughout the country. As of now, we have covered all the 64 districts and all Upazilas except 15 Hill tracts upazilas. Now we have more than 1400 agent points all over the country. We are providing all the basic banking services through these agents. Currently, we have more than 5,00,000 customers of agent banking now who are getting banking services. Among them almost 1,35,000 are women. We have also generated almost 5,000 jobs through these agent banking channels.



Dr. Hasan Imam, Chairman, Bangladesh SME Corporation

iSME is a digital platform with agents in the field who go out with tabs and laptops, collect basic information from an entrepreneur and send it to our SME centres. This information is uploaded to a sophisticated server which completes the analysis and processing. One can then get all the necessary financial statements, such as the income statement, balance sheet, cash flow statement of the MSE, credit scoring and the basics of filling out loan applications and bank forms. The banker and loan providing institution can get all this information electronically or in paper form. It saves a lot of time for the bank. They get all the information in a processed form.

We are working with four commercial banks. We have 12 branches and 12 more in the pipeline. Through this system so far we have registered more than 200 MSEs and 100 loans have been disbursed. It is interesting to note that through this platform 66 percent of these processed MSEs opened their first bank account, 50 percent received their first trade license and 100 percent received their first formal credit.

Our first challenge is the dependence on branch banking. We have to work with the local branches of our partner banks. But these branches are not themselves incentivised to go through these credit applications and approve loans for small enterprises. A more centralised approach such as the one Bank Asia has taken in terms of credit evaluation would help in this regard. We also need to change the mindset of the bankers, which is too oriented towards a collateral-based, documentation-heavy, formal-loan-giving process for MSEs.



Ahsan Zaman Chowdhury, Business Head, Trust Bank Ltd.

We commonly face the problem of agents becoming cashless in the weekend or long holidays. We want to give them a cash credit facility with a three- to five-day interest-free period. This will help agents to make transactions easily. Through the Shurjomukhi project we are using an app which will give information about the cash status of the agents.



Fida Haq, Managing Director & CEO, Shurjomukhi

We are building a digital platform that communicates with the Trust Bank's own MFS platform TBBM which in turn communicates with their core banking system platform. The agents are going to use a smart device like a smartphone or a tablet.

We are issuing 385 smartphones as part of the project. If we see that an agent is running low in digital cash the system will automatically kick in the overdraw facility. This is the essence of the cash management decision support system with overdraw facility. Trust Bank anticipates that around 10,000 agents will be making use of the system when it is in full operation. It will enhance the income generating possibilities of the agents.



Dr. Ahsan H Mansur, Executive Director, Policy Research Institute

Various financial inclusion projects have been operating for quite some time in Bangladesh. Now, we are seeing that usage of technology is facilitating inclusion efforts and delivering benefits to the target groups. We have to overcome two challenges to achieve this goal successfully. First is the technological challenge although progress is being made due to various technological developments globally. Another challenge is the financial reach out to disadvantaged groups. Today, we heard about various innovative solutions to this problem. If we can mainstream even a handful of them it will be a major breakthrough.

Our MSE sector is particularly in need of financial support. In terms of loan loss provision, experience of well-managed SME operations by certain banks indicates that, this sector is the lowest while the loan loss provisions for the so-called collateralized corporate sector debt is the highest. This fact should motivate the financial institutions to reengineer their investment focus towards the MSE sector.



Parveen Mahmud, Chairman, MIDAS

In my experience agent banking is helping to enhance small entrepreneurship program even in rural remote areas. It is encouraging transparency. But, I would request the banks to take care of agents commission so that agents are motivated to transfer of fund of more than 30 / 40 thousand Taka smoothly. Microinsurance, agribusiness is another pressing needs of today to mobilise rural economy.

While working with PKSE, we undertook insurance programmes for marginal farmers. We had talks with Green Delta and Pragati Insurance. In spite of their goodwill and interest it was unable to take off at that time. It is very encouraging to see that with the help of Challenge Fund agri-insurance is finally materialising in Bangladesh. The formation of formal linkages with the informal sectors and various stakeholders through digital platforms such as iSME and Shurjomukhi will make our future brighter.

For women entrepreneur's beyond access to finance, financial literacy training, working capital management through banking facility, regulatory compliance trainings, information technology and help desks should be designed to smoothen availability of finance.



Majedur Rahman, Managing Director, Dhaka Stock Exchange

The five projects presented in today's roundtable show how the grassroots demands of finance need to be translated to the financiers and create a win-win situation for both sides. I fully support the idea that MSEs deserve more attention from the financial sector.

We have introduced a product called Small Capital Board for small and medium industries. BFP-B can play a role here in preparing the list of target population and train them up to avail finance from the system.



Md Arafat Hossain, Challenge Fund Manager, BFP-B

BFP-B currently have a portfolio of 16 projects. Besides doing debt financing projects, BFP-B invested in innovative projects like crowdfunding, impact investment and alternative investment. We are also venturing into insurance prod-

ucts that have the potential to reduce the vulnerability of micro and small enterprises. BFP-B partnered with private sector for launching a composite insurance product which will cover life, asset and liability of the microcredit borrower. It is the first of its kind in Bangladesh. With the experience of these projects we do believe that going forward we will be able to use the remaining funds for attracting more such ideas.

We have so far committed GBP 7 million. We have already disbursed GBP 2 million. With the current portfolio we are very confident that we will be able to reach 180,000 MSEs with additional access to finance and financial services.

For the next round of Challenge Fund we are encouraging private sector companies registered in Bangladesh to apply. Please visit our website at www.bfp-b.org for more information about the Challenge Fund and application process for this year. Please note, the last date for concept note submission is 30th June 2017.



Afsana Islam, Private Sector Development Adviser, DFID

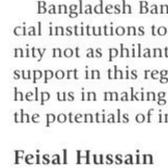
DFID/ UK aid have been long committed to the development of the financial sector of Bangladesh through the automation of the cheque clearing house, automation of credit information bureau, establishment of the electronic fund transfer network (BEFTN), establishment of MRA and InM, the current support in the development of the NFIS and the ongoing CF projects. Our experience shows that a lot of work can be done through the market-driven approach. In this BFP-B programme, the Challenge Fund actually works on how we can stimulate the market to come up with business ideas of products and services or delivery channels that can support the MSEs. We are glad to know that these projects are taking shape and showing good progress. We need to find out what more can be done in the ecosystem. For example, if iSME faces a challenge, can that be solved by other partners like Dutch Bangla Bank or Bank Asia? I am glad to see that discussions about such partnerships have already been started.



S K Sur Chowdhury, Deputy Governor, Bangladesh Bank

The Challenge Fund under the BFP-B project is an innovative idea. Bangladesh Bank has always encouraged such initiatives. The government has been working on financial inclusion because it is imperative for the inclusive growth of the country. Bangladesh has achieved some success in this sector. But we also have some challenges. There is a huge gap between the demand and supply of finance in the country. A large number of people, particularly women, do not have access to financial services. Various compliance issues such as collateral for loan make it difficult for the banks to reach people at the grassroots level. The Challenge Fund is really helping to reach these marginalised people and providing them access to finance at an affordable cost. They have shown the potential of digitising the financial inclusion efforts.

We can adopt some of these innovative solutions in our ecosystem. Agent banking is definitely one of them. Bangladesh Bank always encourages other banks to be involved in agent banking and make their credit distribution channels more digital. The iSME, Shurjomukhi and composite insurance projects have good potential. Bangladesh Bank encourages banks and other financial institutions to take the MSEs as a business opportunity not as philanthropy. We are also giving them policy support in this regard. The BFP-B Challenge Fund will help us in making the financial institutions aware about the potentials of investing in MSEs.



Feisal Hussain

By the end of the project, BFP-B will have directly co-invested in 25 market disruptive ventures at the retail level with banks and non-bank financial institutions, leveraging at least GBP 30m new private sector investments and at least GBP 100m of additional loans to nearly 250,000 MSEs. Since BFP-B is taking a market systems approach and working with Bangladesh Bank and FID to address a range of policy reforms and credit enhancement measures, retail level impact is expected to be scaled by a factor of 10. Taken together, BFP-B together with Bangladesh Bank and Financial Institutions Division, expects to catalyse GBP 1bn of additional loans for micro and small enterprises in Bangladesh.