

What goes wrong with the credit guarantee scheme?



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The stimulus package for the CMSME (Cottage, micro, small, and medium sized enterprises) sector has failed to get momentum despite the fact that Bangladesh Bank rolled out a credit guarantee scheme (CGS) to prop up lenders.

The central bank drew up the scheme on July 23 last year as banks consistently showed reluctance to give out loans under the stimulus package amounting to Tk 20,000 crore.

Lenders will be allowed to avail 30 percent of their total distributed loans from the scheme, worth Tk 2,000 crore, if the amount disbursed becomes defaulted, according to the central bank guideline.

Besides, lenders will get 80 percent of their disbursed funds to a single enterprise if the amount turns classified.

The scheme was supposed to encourage lenders to expedite the loan distribution but it has failed to play its due role because of its complicated terms and conditions.

According to the guidelines of the central bank, under the guarantee scheme, it is required to fulfill several terms and conditions and attach at least 20 types of documents for the disbursement of a loan: BA Shaminoor Rahman, executive vice

president and head of MSME, Bank Asia, said, "Some criteria were set for selection of borrower such as -- what was his working capital? How much damage has been done? It would be difficult to cover those issues."

Besides, if the loan is classified, the lender will have to file a case against the borrower to claim the money under the scheme.

MD Karuzzaman Khan, head of SME and senior vice president of Lankabangla, said, "Under this scheme, if the loan is defaulted, it will take at least three years to get fund from the scheme after completing all processes including legal steps, which is very lengthy process."

Syed Abdul Momen, head of SME Banking Division of BRAC Bank Limited said, "Clients will have to pay a 1 percent commission on their loans to banks when they avail the fund which is another burden for the borrowers."

Md Mahbubur Rahman Palash, executive vice president and head of MSME & Emerging Business Division, Dhaka Bank Limited, said, "Banks will not be interested in this scheme unless it is revised. If it had been favorable for us, the disbursement of Tk 20,000 crore stimulus package of would have already ended."

An official of Bangladesh Bank, seeking anonymity, said it is not possible to complete the whole process instantly. Since the subject is new, they have to go through much scrutiny, he said.

He, however, said the response to this scheme has been muted. At the beginning of any initiative, it is not unusual to get a lackluster response as people take time to understand

the subject matter first, he said. "We hope it will take another one to two years to get familiarised with it," he said.

Mohammad Shams-Ul Islam, managing director and chief executive officer of Agrani Bank, said he thinks it will gradually become popular.

"It needs to be fine-tuned. Since it is new, the problem will be solved

gradually," he hopes.

Seeking anonymity, an official of a state-owned bank, said that the conditions of the central bank are difficult to meet at the implementation stage.

SME entrepreneur Shefali Akter, a proprietor of Shapnail Handicrafts in Jamalpur, said she did not understand the process.

"If this scheme is not understood by the target group and they do not meet the conditions, then its implementation will never be possible," she said.

Shefali said she tried to get a loan from the stimulus package but failed to manage it. "We have suffered a huge loss due to the closure amid pandemic," she added.

As of June 10, banks disbursed about Tk 14,840 crore among 94,445 borrowers under the stimulus package since September last year which is 74.2 percent of the total fund, according to the central bank.

Some bank officials and CMSMEs said there are some other reasons behind the sluggish implementation of the stimulus package such as incapacity of the banks and their lack of mutual trusts with clients.

If a bank does not feel comfortable giving a loan to a customer and its collection is not guaranteed, then that bank will not be able to give out the loan, Momen further said.

If the CGS were accessible, it could have helped mitigate the concerns of the lenders and expedite the loan disbursement rate, according to many officials.

Besides, due to conceptual limitations of clients, failure to provide all required documents is also a barrier in the loan disbursement process, they said.

The CMSME sector is one of the sectors most adversely affected due to the impact of Covid-19 and the second wave has made their conditions even more miserable. There are about 7.76 million CMSMEs in Bangladesh.



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"Banks tend to provide large-scale loans; even if they provide SME loans, those mostly go to men because they do not trust potential women entrepreneurs. Women also find it difficult to find multiple guarantors, as demanded by banks," says Dr Nazneen Ahmed. Innovative financial products that help women get smaller loans, cluster-based loan programmes, and heavier monitoring by banks of the SME loan programmes are solutions to these issues.