

Invest in small business for big impact



MAHMUDUL HASAN

The Covid-19 pandemic came as a devastating blow for Khawja Waseem, who owns a medium-sized enterprise called SS Jute Shoe Thread and Accessories that produces and retails jute goods in Gazipur.

Export orders were cancelled while domestic demand plunged with the pandemic having brought both the global and local economies to a standstill for prolonged periods, making it difficult for his business to survive.

And now, even though the pandemic situation has improved, the bad days have yet to end.

“Now we are facing a number of new challenges with the biggest issue being the soaring price of raw materials,” Waseem said.

The price of jute yarn was Tk 80,000 per tonne before the pandemic but it has since jumped to Tk 1.5 lakh and with such a hike in costs, his profit margin has hit rock bottom.

Waseem's perils do not end there

though as freight charges have also skyrocketed amid the pandemic.

“The shipping cost of a 40-foot high container was only \$1,500 in pre-pandemic times but it now costs around \$11,000,” he added.

As such, it has become very difficult for the entrepreneur to maintain his business.

Like Waseem, the owners of many other micro, small and medium enterprises (MSME) had their hopes for a quick recovery from Covid-19 dashed by spiralling raw material prices and soaring transport costs.

The coronavirus pandemic has had a severe impact on MSME enterprises, which play a crucial role in the country's economic development through their contributions to production, employment and exports.

There are about 7.8 million MSME enterprises in Bangladesh that account for about 25 per cent of the country's gross domestic product and generate 35-40 per cent of the employment opportunities.

Md Manik, a microenterprise owner who sells clothing items in the capital's Mirpur area, said sales have been very low for the last few months.

“My customers are mostly poor and they are not spending,” he added.

According to industry people, MSMEs have very inadequate access to institutional finance.

“The most important issue is their working capital,” said AKM Fahim Mashroor, chief executive officer of Delivery Tiger, which recently collaborated with microfinance intuition Shakti Foundation to disburse collateral-free digital loans among small-and-medium (SME) F-commerce companies.

“Over 95 per cent of them don't have

any access to funding from banks as most of them don't have trade licenses,” he added.

Besides, many of them even with trade licenses cannot avail loans because they cannot provide collateral. As such, MSMEs cannot expand their businesses because of a lack of working capital finance.

“They should be given loans by banks based on their business data. Their data should be used as collateral or asset,” Mashroor said, adding that fintech companies and banks could collaborate to disburse loans among SMEs as the former could provide the required data.

In April 2020, Bangladesh Bank unveiled a stimulus package worth Tk 20,000 crore for the MSME sector to protect it from the impacts of the coronavirus pandemic. Of the sum, 77 per cent was disbursed.

Banks are allowed to charge 9 per cent interest on their disbursed loans. The end-users get the loan at 4 per cent interest while the government provides the remaining 5 per cent as an interest subsidy.

The tenure of the first round of stimulus packages expired in June last year, prompting the central bank to allocate another Tk 20,000 crore for the current fiscal year ending on June 30.

Lenders disbursed 45.7 per cent of the second package announced for MSMEs between July and March of the ongoing fiscal year.

Officials of commercial banks and Bangladesh Bank say that lenders received interest subsidies from the government after December 2020 at a slower pace, so they are not encouraged to disburse the loans.

However, officials of different banks said they are renewing their efforts to provide loans to more MSMEs.

The imposition of an interest rate cap on loans in April 2020 has discouraged banks from MSME lending. However, the fall in deposit rates subsequently helped offset the banks' concerns, according to Ahsan Zamil Hossain, head of SME Banking at Midland Bank Limited.

“During the pandemic, banks emphasised on loan recovery and disbursing the stimulus package,” he said.

“Now, we are focusing on MSME lending as the pandemic situation has improved.”

Hossain went on to say that SME lending has been increasing for the past decade.

“However, the risk involved in SME loans is higher. As the customers are small, the operational costs are also higher. For a viable SME lending business in any bank, the lending rate should be kept higher,” he said.

Hossain added that Midland Bank, in collaboration with USHA Foundation, a non-government organisation, disbursed Tk 1 crore among 40 entrepreneurs earlier this month for stakeholders of the Jamdani Cluster, Narayanganj, under cluster-based financing in the CMSME sector.

Dhaka Bank Limited has been in a continuous pursuit of increasing its exposure in the cottage, micro, small and, medium (CMSME) segment, said Md Mostaque Ahmed, deputy managing director of the bank.

He said the bank is launching the DBL Start-up Fund, a term loan facility for new/start-up business entrepreneurs to encourage and support young entrepreneurs and transform their innovative ideas into businesses.

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