

## MORE FUNDS AND digitalisation needed

Currently, the total contribution of our country's CMSME sector towards our GDP is around 27 percent. Just a year ago, it used to be 24 percent. It is a good sign that the percentage is increasing, but at a slower rate. Japan, an advanced economy with ongoing mega projects and big venture enterprises, has a CMSME contribution of 70 percent towards its GDP. In China, the sector's contribution to the country's GDP is 60 percent. Our neighbouring India, Pakistan, and Sri Lanka have SME contributions to GDP rates of 30 percent, 40 percent, and 52 percent, respectively. Comparing our numbers with those of these countries tells us we still have a long way to go.

Recent data suggests that the total loan from both banks and non-banking financial institutions (NBFI) amounts to roughly more than Tk 16 lakh crore, of which only 10 percent goes to CMSMEs. Of that 1,60,000 crore, around 3.5 percent comes from NBFI and 96 percent comes from banks. As a NBFI, our stake in this sector is relatively lower,



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this sector include the traditional banking culture of providing mortgage-based loans. Most CMSME entrepreneurs usually don't have the required assets to qualify for a loan. In our experience, most of our well-performing loans were unsecured without a mortgage. What we focus more on is the cash flow of the businesses. Then comes the issue of regulatory compliance, for which we need to verify the identities of our potential clients. Despite the government's continuous efforts, we have not been yet able to bring the entire population under a smart ID system. The cost of funds resulting from an ever-increasing interest rate is also a major obstacle to the path of development for the SME sector.

Ensuring adequate sources of funding is another major issue we are dealing with. Ideally, the percentage for CMSME-related loans should be around 27 percent, amounting to 4,00,000 crore, aligning it with the sector's contribution to GDP. Traditionally we prefer that manufacturing

## Banks must reach OUT TO SMEs

As part of its all-inclusive banking policy, EXIM Bank has always promoted investments in SMEs and related sectors like agriculture, cottage industries, micro-enterprises, women entrepreneurship, and rural finance. Around a fifth of our investments go to these sectors. We achieved as much as 87% of the disbursement target set by the regulator for these sectors. We aim to create new entrepreneurs in SMEs through consultancy and education. This is why we need to reach remote areas of the country and unbanked people within the demographic. Besides having a dedicated SME desk at each of our branches staffed with SME experts, we promote intensive communication at the social level. This is how we extensively engage in the SME business.

Banks provide money to those who need it. But in reality, people with little money rarely approach banks. Our SME entrepreneurs are such a segment



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the standard of living for the marginalised. For a bank, SME financing also means ensuring inclusive banking, controlling concentration risk, and maintaining sustainable growth. While providing SME investments, we promote women entrepreneurs.

In fact, the government is very supportive of SMEs and related sectors. The central bank already has a substantial fund under its refinance scheme for SME enterprises, aimed at creating employment, especially in remote and rural areas. Now it is time for commercial banks to make the best use of this fund to identify and nurture new entrepreneurs every day. However, the government should ensure through legal means that SME investments/loans reach the real beneficiaries, or we cannot expect the intended socio-economic impact to occur. Repayment failures and laxity in securities should be dealt with prudently.

**We are growth partners for every business graduating from the micro-level to a bigger scale.**

but we are constantly trying to expand our SME portfolio. LankaBangla Finance is currently focused on CMSMEs. In terms of portfolio, LankaBangla is a major player in CMSME sector.

At LankaBangla, our CMSME financing team believes that we are growth partners for every business graduating from the micro-level to a bigger scale. We not only work as financier but also as financial consultants for our clients. We have a partnership with the SME Foundation to provide necessary training to CMSME clients.

The main factors behind our slow progress in

and service-oriented businesses generate more employment than trading businesses. To maintain a stable supply chain, trading businesses dealing with local products should be promoted. Meanwhile, the SME Foundation should be empowered with additional funding and human resources. All identification and verification systems should be integrated into one digital system to lower loan processing, monitoring, and transaction times which will also help to reduce cost of doing business. The digitalisation of financial services could be the game changer we need to develop our CMSMEs further.

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of people who have little money and even less awareness about preferential banking services available to them. Therefore, banks should reach out to them and explain the prospects of their enterprises explicitly so that they dare to embark on further ventures. This is how we can push our SME potential to the limits.

We must remember that funding SMEs is not merely about supporting business enterprises; it involves supporting families, empowering women, nourishing children, eradicating poverty, generating employment, and ultimately upgrading

One thing worth mentioning is arranging SME fairs regularly at the upazila towns where banks and non-bank financial companies can present their SME service offers, and prospective and existing SME entrepreneurs can meet them with their plans and enterprises. Bangladesh, being an agricultural country with a vast array of professional castes like potters, carpenters, weavers, fishermen, blacksmiths, etc., who are highly skilled due to ancestry, is fertile ground for cottage and SME banking.

## LEVERAGING THE POWER OF SMEs

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According to Dr. Mohammad Masudur Rahman, Chairperson of the SME Foundation, SMEs currently contribute 30-32% to the GDP, but there is potential for them to contribute even more significantly to overall economic development.

With a vision to create a vibrant SME sector in the country, the government first formulated the SME policy in 2015 under the Ministry of Industries, building on the previous SME Strategy Framework of 2005.

"In the past decade, significant efforts have been made to foster the SME sector, including the establishment of the SME Foundation. Policymakers now recognise the crucial role of SMEs in driving overall national development, leading to substantial policy-level support for the sector," says Dr. Mohammad Masudur Rahman. However, he also acknowledges that Bangladesh lags behind its neighbouring states in terms of SME contribution to GDP. For instance, SMEs account for 60% of India's GDP, over 70% in China, and approximately 50-60% in Vietnam.

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contribution to GDP isn't increasing sufficiently, which could hinder the country's financial growth despite support from banks and financial institutions. "Due to inflation and economic hardship, there is currently a lack of enthusiasm for expanding this sector. Entrepreneurs are focused on survival rather than adding new features, as production costs have risen while sales have fallen due to price increases. Since the end of last year, we've observed that it has been a slow period for SMEs," shares Syed Abdul Momen, Deputy Managing Director and Head of SME Banking at BRAC Bank, the most SME-focused bank in the country.

According to the last Economic Census conducted by the Bangladesh Bureau of Statistics in 2013, there were 7.88 million SMEs in the country. Experts now estimate that there are over 10 million SMEs in Bangladesh, highlighting the steady growth of the SME sector in Bangladesh.

Banks and financial institutions have played a crucial role in fostering the growth of SMEs. They support the integration of SMEs into formal economic channels. In the absence of these formal channels, SME entrepreneurs often turn to informal sources such as NGOs or local moneylenders, who charge exorbitant interest rates. This

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reliance on informal borrowing perpetuates a vicious cycle of debt, hindering any significant improvement in their economic fortunes.

Importantly, Bangladesh Bank introduced several schemes and programmes to flourish and expand SMEs. In 2004, the central bank introduced a refinancing scheme named the "Small Enterprise Refinance Scheme" with an initial fund of BDT 1.0 billion to support the development of small enterprises. To meet the increasing demand from end borrowers, the fund has undergone multiple augmentations and currently stands at BDT 30.0 billion after the latest increase.

Following the guidance from the central bank, banks and NBFI, for the first time, established an indicative target for SME loan disbursement in 2010. "Around one and a half decades ago, banks and NBFI would show little interest in SME finance. Now, they perceive financing SMEs as secure, with minimal risk of bad loans compared to other sectors. Currently, SMEs constitute a significant portion of their portfolio, contributing substantially to their profits from SME lending," notes Dr. Mohammad Masudur Rahman.

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## এস এম ই উদ্যোগ গল্প হবে সবার, স্বপ্ন ও সফলতার

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