## SIMPLIFYREGULATORY compliance for CMSMEs

**DHAKA BANK** 

Sustainable growth in the CMSME and Emerging Business industry is a major priority for Dhaka Bank. The bank is dedicated to increasing its presence in this sector. To achieve this, the bank has emphasised: i) Developing new MSME & Emerging **Business** products to meet the everchanging dynamics of customer demand; Developing Supply Chain and Distributor Finance models to facilitate **MD EMRANUL HUO** business growth; iii) MANAGING DIRECTOR & CEO Allocating branches with specific MSME business targets and

meticulously following up on them; iv) Arranging engagement various programs for people, such as fairs, workshops, and skill development training; and v) Modernising developments in the overall business environment.

Cluster financing has been another area the bank has focused on. Through Cluster Financing, we have reached 156 rural and suburban customers working in Shoe, Furniture, Basket, Mritt Shilpo, and Kutir Shilpo clusters. The total loan disbursement is Tk. 37.63 million.

We aim to reach CMSMEs in rural and hard-toreach areas through mobile banking, mobile app and internet banking. We are also expanding our business network into rural and remote areas by establishing branches and sub-branches.

Firstly, I believe banks can change their perspective towards financing businesses, viewing it not merely as an earning mechanism but also as a development mechanism. If the banking system supports MSMEs, it will subsequently contribute to the country's development. To achieve this, banks should offer tailored financial products to meet customer demand instead of traditional offerings. This could include: i) Offering loans with flexible terms and conditions; ii) Providing microloans to small businesses and startups that may not qualify for traditional loans; iii) Introducing

revenue-based financing with a flexible repayment schedule, and so forth.

In line with the motto of Digital Bangladesh, modern services such as online banking platforms and digital payment solutions can be extended to MSMEs.

As part of MSME financing strategies, banks should consider arranging financial literacy programmes train small-business owners nationwide, conducting workshops seminars on financial literacy, business management, regulatory compliance. Dhaka Bank

the

MSME

sector and is in the process of introducing multiple products and services under various pre/refinancing the business operations in line with the latest schemes to meet the timely needs of this business segment and thereby promote overall economic activity in the country.

prioritised

Having a presence in all business segments, we believe that financing MSMEs should be handled under a separate mode distinct from traditional corporate financing. It is high time that simplified regulatory compliance for CMSMEs is introduced to reduce administrative burdens and associated costs. Developing policies that encourage innovation and growth in the CMSME sector, such as tax incentives and grants, should also be considered.

To secure financial support from banks and NBFIs, MSME entrepreneurs need education and training to maximize their benefits from these institutions. The government can play a vital role by promoting entrepreneurship education programmes.

To ensure a healthy and cohesive business ecosystem in the country, a collaborative environment must be established where CMSMEs, large corporations, financial institutions, and government agencies can work together to support each other's growth and development.

## Digitise operations to REACH CMSMEs

MTB has consistently served as a trusted partner for SMEs nationwide since its inception. Our strong compliance with regulatory directives for CMSMEs reflects our commitment to developing these sectors while enhancing financial inclusiveness in the country. We offer marketcompetitive solutions to Surplus Business Units (SBUs) and Deficit Business Units (DBUs) within the CMSME sector, ensuring comprehensive **SYED MAHBUBUR RAHMAN** support in all possible ways. Our diverse MANAGING DIRECTOR & CEO product range simplifies **MUTUAL TRUST BANK** business transactions and provides extensive

credit facilities to meet both

working capital and fixed

asset requirements through

our extensive physical and digital

distribution channels. To ensure smooth financial inclusivity, we have established numerous branches, sub-branches, and agent outlets across the country, targeting rural and hard-to-reach areas. Additionally, we offer various innovative, customer-centric digital solutions, enabling access to financial services from any location in the country. Furthermore, we partner with different fintech and agritech companies to reach remotely located SMEs through an embedded financing programme.

There are millions of CMSMEs nationwide, and significant numbers are still untapped. It is very difficult to reach remotely located CMSMEs solely through physical expansion. In addition to the classical business model, we need to focus on digitising operations to reach millions of CMSMEs in the fastest and most efficient way. We also need to address the stakeholders related to the value chain of the business to bring efficiency and competitiveness. Partnering with different fintech and other partners for embedded financing is also a solution. MTB has been taking various measures to build digital platforms to support CMSMEs across the country and paying attention to supply chain financing programmes to extend better support to The Government of Bangladesh has always extended support to promote SMEs in Bangladesh. Bangladesh Bank has also been tirelessly formulating various policy supports and financing packages for SMEs over the years. SMEs are

numerous

and challenges. I believe the definition of SMEs needs reviewing, with greater attention given to cottage, micro, and small enterprises. SMEs also need to compete on a level playing field, and large enterprises should focus more on high-technology-based innovative industrial sectors. Therefore, the government could review

vulnerable segments with

limitations

the customised tax, duty, and VAT structures for SMEs to foster their growth. There should be an integrated mechanism to restrict large enterprises from entering into products/services typically handled by SMEs. Instead, large enterprises could serve as marketing powerhouses to promote SME products nationwide. Obtaining regulatory licenses for SMEs remains expensive and complex. The government could simplify this process to support SMEs

Access to finance for all SMEs remains a challenge, although it's less difficult than it was 10 to 15 years ago. However, obtaining finance alone isn't enough to support SMEs. They still lack financial literacy, technology-driven production, necessary skill sets, suitable marketplaces to showcase their products, and successors to take over small-sized businesses. Therefore, we need to focus on expanding nonfinancial services to enhance capacity, introduce incubation programmes for SMEs, establish common facility structures for cluster benefits in the long term, and implement long-term cluster development programmes by assigning specific clusters to particular banks. Partnering with different fintech/agritech firms to scale up customer onboarding is also crucial for boosting the SME sector in Bangladesh.

effectively.

## Leveraging the power of SMEs

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The recent two-year pandemic has been devastating for the entire SME sector. In response to mitigating the adverse effects of COVID-19 and reviving economic activities, it would significantly enhance announced a financial stimulus package of BDT 200 billion in 2020 for the CMSME. This initiative aimed to increase the flow of credit and investment in the sector within the country. Subsequently, on April 26, 2020, a revolving refinance scheme amounting to BDT 100 billion was introduced from Bangladesh Bank's own source through SMESPD. Under this scheme, participating banks and financial institutions (PFIs) are availing refinance facilities up to 50 percent of their lending. Bank insiders believe these incentives have been crucial for the SME sector to endure the challenges of the pandemic and to rejuvenate in the post-pandemic period with renewed spirit.

Bangladesh Bank has mandated that all banks allocate 25 percent of their total loan disbursement to CSMEs by December 2024, and banks are diligently adhering to this directive.

According to the Bangladesh Bank's Quarterly Statement of Loan Disbursement for October-December 2023, the total outstanding loans and advances amount to BDT 1,591,852.20 crore. Of this, Non-Bank Financial Institutions (NBFIs) account for BDT 56,049.48 crore, while scheduled banks total BDT 1,535,802.72 crore.

Banks and financial institutions are increasingly aligning with government directives to support and enhance the SME sector, which is experiencing gradual growth.

"Midland Bank is very positive about SMEs. We are actively campaigning for them and will be opening an SME centre within two weeks-one in Nababpur and one in Gazipur. We have received permission from the central bank, and we are regularly disbursing loans and receiving repayments," shares Md Ahsan Jamil Hossain, Head of SME and Agri at Midland Bank.

"City Bank entered the SME sector 6-7 years ago, and we now have a portfolio of around BDT 4,500 crore in this sector. We are extensively distributing loans through our vast network of branches, sub-branches, and agent banking. More than 78

percent of our loans go to rural and semi-metropolitan areas," shares Kamrul Mehedi, Head of SME at City Bank.

He further states that if banks invest more in networking for SMEs financial inclusion. SMEs would be able to obtain loans from formal channels at much lower interest rates compared to local NGOs or money lenders.

"We have observed that loan repayment in this sector is very promising. Even when occasional defaults occur, they can repay their loans with minimal incentives if they have good intentions. At BRAC Bank, the non-performing loan (NPL) rate for collateral-free loans is only 2.5 percent, whereas the NPL rate in the corporate sector is about 6-7 percent," says Syed Abdul Momen, Deputy Managing Director and Head of SME Banking at BRAC Bank.

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However, there is still a demandsupply gap in terms of SME loan distribution.

Currently, only 36 percent of the required loans for SMEs are obtained from formal economic channels, while the remainder comes from the informal sector, according to Dr. Mohammad Masudur Rahman, Chairperson of the SME Foundation. He emphasises that bringing more SMEs into the formal sector would be mutually beneficial for both SMEs and banks or NBFIs.

"About 20% of total loans and advances of the banking sector is given to CMSMEs of the country. We are lagging in meeting the expected target of the Central Bank. The demand-supply gap is visible, and there is a large stake out of reach of formal lenders. Almost all lenders are trying to expedite and scale up lending activities in SMEs," says Md. Khalid Mahmood Khan, Additional Managing Director & CBO of Mutual Trust Bank.

Most banks or financial institutions don't have organic links with SMEs, unlike many local NGOs or a few SME-focused banks. As a result, banks can't fully commit to loan disbursement for SMEs. However, some procedural changes could be a game changer, making these loans more accessible to SMEs.

"Formal economic channels often have rigid criteria that many CMSMEs cannot meet, especially cottage and micro-level businesses. To address this, financial institutions need to develop more flexible and innovative financing solutions, reduce bureaucratic hurdles, and improve the reach of financial services to underserved areas," notes Md. Mahbubur Rahman Palash, Executive Vice President and Head of MSME and Emerging Business Division, Dhaka Bank.

"With the introduction of NID cards and a national database, we now have access to potential lenders' addresses. If we make it clear that failure to repay loans will result in being marked as defaulters, and if this record is considered when applying for other government and private services, the process of receiving SME loans would become much easier," shares Shaminoor Rahman, Head of SME at Bank Asia.

"SMEs require monitoring and close supervision; otherwise, they could derail or become traceless. We not only provide loans but also act as consultants for their business. Since monitoring costs are high, we need to focus on digitalising the entire process and transactions to reduce these costs," mentions Md Kamruzzaman Khan, Executive Vice President and Head of SME Financial Services at Lankabangla Finance.

"Enhancing offers such as risksharing financing, flexible credit guarantee schemes, and more refinance options can increase banks' willingness to finance CMSMEs, attracting formal financiers and improving their accessibility to formal financial channels. Formal financial institutions can also reduce operational costs by creating diversified product suites and using digital solutions, boosting CMSME financing and promoting significant sector growth," states Ebnul Alam Palash, Head of MSME Business, Prime Bank.

