



SUPPORTING MSME

Growth in a Shariah-Compliant Manner

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The Daily Star (TDS): How do you assess the current state of the MSME sector in Bangladesh? What role do you think banks can play in accelerating its growth?
Mohd. Rafat Ullah Khan (MRUK): Bangladesh's CMSME sector (Cottage, Micro, Small, and Medium Enterprises) is a powerful driver of industrial growth, rural employment, women's economic participation, and poverty reduction. With approximately 11.8 million active enterprises, CMSMEs contribute over a quarter of national GDP and engage millions of workers, including large segments of women and youth.

We offer Shariah-compliant, collateral-free investment products specifically designed for micro and cottage industries, focusing on cash-flow-based rather than traditional asset-backed financing.

For the banking sector, CMSMEs represent both a developmental imperative and a strategic opportunity. As the sector continues to expand, banks play a pivotal role in bridging the financial inclusion gap by offering customised, Shariah-compliant, and sustainable financial solutions tailored to the unique needs of small entrepreneurs. Beyond financing, CMSMEs open new avenues for digital banking, agent networks, and partnerships that can deepen outreach and strengthen community-level resilience.

TDS: What are the major challenges MSMEs face in accessing finance, and how is your bank addressing these issues, especially for micro and cottage industries?
MRUK: Major challenges faced by MSMEs in Bangladesh—particularly micro and cottage industries—include lack of adequate collateral, relevant business experience, sustainable revenue generation capacity, audited financial statements, sponsor equity injection, and expansion capability. Additionally, many MSMEs operate in informal sectors, making it difficult for banks to assess risk accurately.

At Al-Arafah Islami Bank PLC, we recognise these challenges and have tailored our approach to bridge the financing gap. We offer Shariah-compliant, collateral-free investment products specifically designed for micro and cottage industries, focusing on cash-flow-based rather than traditional asset-backed financing.

TDS: Does your bank have any dedicated products, financial literacy programmes, or credit guarantee schemes targeted at MSMEs?
MRUK: Al-Arafah Islami Bank PLC is committed to supporting the growth and development of MSMEs through a range of Shariah-compliant financing products, capacity-building initiatives, and strategic partnerships.

Dedicated MSME Products: Our bank offers a suite of investment

products tailored to meet the diverse needs of MSMEs:

- **Micro Enterprise Investment Scheme:** Provides financial support to micro-enterprises, facilitating their growth and sustainability.
- **EME Investment Scheme:** Assists small and medium enterprises in expanding their operations and enhancing productivity.
- **Women Entrepreneurs Investment Scheme:** Empowers women entrepreneurs by providing the necessary financial resources to establish and grow their businesses.
- **Start-up Uddog Scheme:** Our "Uddog" scheme under the Al-Arafah Rural Development Program (ARDP) is a best-in-class model for rural financial outreach—going beyond loans to build economic resilience, financial discipline, and social equity in Bangladesh's rural heartland.

These products are structured using Shariah-compliant modes such as Murabaha, Mudaraba, Musharaka, and HPSM, ensuring ethical and transparent financial transactions.

Financial Literacy Programmes: Our Financial Inclusion Department conducts workshops and seminars to enhance MSME financial literacy and promote digital banking in local communities.

Credit Guarantee Schemes: To mitigate the risks associated with lending to MSMEs, our bank has

partnered with Bangladesh Bank to access credit guarantee facilities. This collaboration enables us to offer refinancing facilities and risk mitigation support.

TDS: How has your bank leveraged technology or digital banking solutions to improve outreach and services to MSMEs, particularly in semi-urban and rural areas?
MRUK: While our bank has taken a cautious and Shariah-compliant approach to digital banking adoption, we are gradually integrating technology to enhance customer service and operational efficiency in ways that align with Islamic financial principles. Our core banking systems have been upgraded to enable faster transaction processing, centralised customer data management, and improved service delivery across branches.

We offer SMS banking and mobile alerts, while expanding agent banking, digital onboarding, and mobile services to reach underserved MSMEs.

TDS: What steps is your institution taking to support women-led MSMEs and promote financial inclusion among underrepresented segments?
MRUK: To ensure focused service delivery, each of our branches hosts a Women Entrepreneurs Desk, offering tailored guidance on Shariah-based financing. In collaboration with Bangladesh Bank, we also offer a refinance scheme that provides affordable investment at a concessionary profit rate, encouraging women entrepreneurs to formalise and grow their businesses.

TDS: Looking ahead, what policy reforms or collaborative efforts between banks and the government would you recommend to ensure sustainable development of Bangladesh's MSME ecosystem?
MRUK: To ensure the long-term,

sustainable growth of Bangladesh's MSME sector, a coordinated approach between the banking sector and the government is essential.

Key recommendations include:

- **Strengthening the Credit Guarantee Scheme (CGS):** A more robust and well-funded CGS—covering a wider range of MSMEs, especially cottage and women-led enterprises—would encourage banks to lend confidently without being overly reliant on traditional collateral.
- **Simplifying regulatory compliance:** Many MSMEs struggle with complex licensing, tax, and reporting requirements. Streamlining these through one-stop digital service portals can significantly reduce the burden on small businesses and bring more of them into the formal financial system.
- **Promoting Shariah-compliant refinancing facilities:** Expanding refinancing schemes through Bangladesh Bank, specifically tailored for Islamic financial institutions, can improve liquidity and support ethical financing solutions for underserved entrepreneurs.
- **Enhancing financial literacy and entrepreneurship training:** A national-level partnership between banks, the SME Foundation, and educational institutions can scale up technical and financial literacy programmes, preparing MSME owners to manage risks, digitise operations, and scale sustainably.

At Al-Arafah Islami Bank, we believe that policy reforms must be inclusive, forward-looking, and aligned with both national development goals and the principles of Shariah.



MUJIB RAHMAN

In a world grappling with climate change and economic inequality, Bangladesh's private banks are emerging as vital champions of sustainable growth. Long dominated by public policies and development institutions, green finance is now increasingly being shaped by the private sector—particularly through the financing of micro, small, and medium enterprises (MSMEs).

This shift isn't just timely—it's transformational.

"In recent times, we have observed a noticeable shift in commercial banking toward SME-focused products," notes Professor Md Main Uddin of Dhaka University's Department of Banking & Insurance. "This transition is partly driven by the higher default risks often associated with large corporate loans."

Unlike big-ticket corporate lending, which often bypasses environmental considerations, MSME financing offers a chance to promote eco-friendly practices at the grassroots while simultaneously empowering low-income communities. Several banks are now pioneering loan products designed to be both inclusive and environmentally sustainable.

Eastern Bank (EBL), for example, is aligning its SME lending with environmental priorities. "We are deeply committed to fostering a green and sustainable business environment for MSMEs," says Md Shabu Munshi, Senior Vice President and Head of Asset, SME & Regulatory Reporting at EBL.

According to him, 60–70% of EBL's SME financing supports trading, while 30–40% goes to manufacturing and service-based enterprises. However, the bank actively avoids financing environmentally hazardous industries—such as tanneries, rubber, plastic, and certain types of footwear production—classified under red and orange risk categories.

Instead, EBL is prioritising sectors like garments, jute, hosiery, textiles, and paper cutting. One of their standout products is EBL Utkarsha, which offers need-based, collateral-free loans to support small enterprises with green aspirations.

City Bank is another frontrunner. The bank has received the Bangladesh Bank's Green and Sustainable Bank award four years in a row—a testament to its ongoing efforts. "Our SME Unsecured Loan product offers up to BDT 1.5 crore without requiring any collateral," says Kamrul Mehedi, Head of Small, Microfinance, and Agent Banking.

The product is designed to support sectors such as fisheries, livestock, agro-processing, agricultural equipment, diagnostic centres, rice mills, furniture,

and Ayurvedic ventures—areas that combine economic inclusion with environmental stewardship.

At Trust Bank, the green agenda is taking root in the form of renewable energy financing. "We are quite concerned about sustainability and environmental impact," says Sadat Ahmad Khan, Senior Vice President and Head of SME Division. The bank's "Trust Power" product facilitates investment in small-scale solar solutions for homes and commercial use, with the potential to scale into larger irrigation projects.

Trust Bank has also financed over 1,000 biogas plants and introduced Trust Shufola, a product that targets green industries, brick kilns using improved technology, and effluent treatment systems—offering a lifeline to pollution-heavy sectors looking to transition.

Meanwhile, BRAC Bank continues to lead from the front. "We empower SMEs with sustainable financing aligned with Bangladesh Bank's green banking guidelines," says Syed Abdul Momen, Additional Managing Director and Head of SME Banking. The bank's portfolio includes support for waste management, water conservation, energy efficiency, and sustainable infrastructure.

BRAC Bank stands out for its integration of technology. Its digital loan products, such as Shafollo and Jibika, are fully paperless—helping reduce deforestation. Platforms like ASTHA, bKash repayments, and 24/7 Cash Management reduce branch visits and transport-related emissions, while tools like eLAP (Digital Loan Origination System) and digital onboarding simplify banking for rural clients and cut the carbon footprint.

In addition, BRAC Bank helps finance the import of energy-efficient machinery for small manufacturers, enabling cleaner production and longer-term cost savings.


Taken together, these initiatives signal more than just compliance—they represent a new kind of banking ethos. By integrating sustainability into core business models, these banks are not only broadening access to finance but also supporting Bangladesh's ambition to transition to a low-carbon, inclusive economy.

The road ahead is not without challenges. Scalability, affordability, and regulatory alignment will be key to making green finance work for all. But the momentum is there. Private banks are no longer on the sidelines of green development—they are helping lead the charge.

As Bangladesh's MSMEs evolve into the country's green growth engines, the banking sector is proving that the future of finance is not just profitable—it can be sustainable too.




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