SME and Special Programmes Department
Bangladesh Bank

(The Central Bank of Bangladesh)
Head Office, Dhaka
Post Box # 325
Website: www.bb.org.bd

SMESPD Circular # 01

Date: 14 Kartik 1420 / 29 October 2013

Chief Executives /Managing Directors
All Scheduled Islamic Banks and Financial Institutions
Head Office

Dear Sir:

'Funding Assistance Program' for Islamic Shariah-Based Financing to 'Agro-based Product Processing Industries in Rural Areas' and 'Small Enterprises (including Women Entrepreneurs)' in Bangladesh.

Bangladesh Bank provides funding support for setting up agro-based industries and encourages small entrepreneurs through its refinance schemes to scheduled banks and financial institutions for employment generation, poverty alleviation and equitable economic growth with special emphasis to rural areas through enhanced industrial development. To strengthen the contribution of banks and financial institutions operating under Islamic Shariah-based principles and to ultimately ensure development and expansion of SME banking practices, Bangladesh Bank has decided to introduce a 'Funding Assistance Program (FAP)' under Islamic Shariah-based financing to agro-based industries and small enterprises (including women entrepreneurs) in Bangladesh. Under the Funding Assistance Program, banks and financial institutions operating under Islamic Shariah-based principles can enjoy fund support upon satisfaction of following rules:

A. General Principles:

1. Interested banks and financial institutions operating under Islamic Shariah-based principles ought to sign a Participation Agreement with SME and Special Programmes Department, Bangladesh Bank, Head Office after which they shall be known as Participating Financial Institutions (PFIs).
2. To seek fund under the FAP, the PFIs shall open a 'Mudaraba Fund Account (MFA)' in their book of accounts alike their Mudaraba Savings Account (MSA). Bangladesh Bank will supply fund at a rate of return equal to that of MFA/MSA.
3. Bangladesh Bank will charge profit on the funds supplied to participating institutions at the rate of return of the MFA/MSA quoted for the previous quarter. Adjustments will be made with the realised rate of return of MFA at the end of each year. The PFIs shall report the provisional profit rate of MFA/MSA at the end of each quarter to Bangladesh Bank. A PFI having a provisional profit rate below the Bank Rate in its MFA/MSA will cease to be eligible for fund support from the FAP.

4. To gain funding support from FAP all PFIs ought to abide by "Guidelines for Islamic Banking", "Prudential Regulations for Banks", "Prudential Regulations for Financial Institutions" and other regulations put in force by Bangladesh Bank from time to time.
5. The selection of investment clients, sanctioning and disbursement of investments, creation of charge, determination of debt-equity ratio and margin, arrangement of insurance, monitoring and ensuring proper utilization of fund, etc. shall be governed by the rules of PFI, principles of Islamic Shariah and the relationship between banker and customer. The realization of investment shall be the sole responsibility of the investing PFI.
6. A PFI shall submit application for fund support under the FAP against their sanctioned investments on a monthly basis along with copies of sanction advice, acceptance letters from clients and other required documents. The application for fund against investment sanctioned during a particular month must be submitted on the 5th working day of the following month. However, an investment proposal sanctioned before 35 days from the date of application to Bangladesh Bank for funding support shall not be entertained.
7. A PFI shall mention the tentative disbursement date of the investment. The PFI must make the disbursement within 5 working days from the date of receipt of fund from Bangladesh Bank. If a PFI fails to disburse fund within the stipulated 5 working days, it must notify the event to Bangladesh Bank within next 3 working days in which case Bangladesh Bank shall withdraw the fund along with profits for applicable days, if any.
8. A PFI shall place a Demand Promissory Note at each instance equal to the amount of fund support from Bangladesh Bank.
9. Bangladesh Bank shall withdraw the funds provided to PFIs with profit from their current account maintained in the Motijheel Office of Bangladesh Bank according to applicable withdrawal schedule.
10. The PFIs shall maintain/supply all the necessary information/statements relating to the proper utilization of funds from time to time.
11. If any PFI enjoys fund support from this FAP by providing false information then the amount of fund provided will be revoked by debiting the current account of the PFI maintained in the Motijheel Office of Bangladesh Bank at once with profit at double the prevailing rate in MFA/MSA.
12. Fund supports under the FAP will be provided only for investments sanctioned after the issuance of this circular.
13. The interested banks and financial institutions under Islamic Shariah-based principles are to collect samples of required participation agreement, demand promissory note, application for fund etc. from SME and Special Programmes Department of Bangladesh Bank.

B. Principles for Funding Support Scheme for Financing Agro-based Product Processing Industries in Rural Areas:

14. 100% fund support will be provided against investments by PFIs in agro-based industry under this scheme.

15. The agro-based industry must be situated outside the perimeter of divisional sadars and Narayanganj city.
16. The value of fixed assets (excluding the value of land and building) of the agro-based industry must not exceed BDT 10 crore.
17. Funding supports under the scheme will be available for working capital, mid-term, and long-term investments. The tenure shall be 1 year for working capital investment, 3 years for mid-term investment and 5 years for long-term investment.
18. The profit rate realized at the client level under this scheme shall not exceed more than the prevailing Bank Rate (currently 5%) plus the rate of the Mudaraba Savings Account of the PFI.
19. Funds taken by PFIs under this scheme will be withdrawn as per following rules:
    a. Working Capital Investment: Fund shall be withdrawn with profit in a single instalment after the end of 1 year.
    b. Mid-term Investment: Fund shall be withdrawn with profit in quarterly instalments within a maximum period of 3 years with moratorium period, if applicable.
    c. Long-term Investment: Fund shall be withdrawn with profit in quarterly instalments within a maximum period of 5 years with moratorium period, if applicable.
    d. Moratorium Period: Moratorium periods may be provided in multiples of 3 months which shall not exceed 6 months to make calculations simple. Example: If moratorium period is not offered, a fund support for 3-year mid-term investment shall be taken out in 12 instalments. But if a moratorium period of 3-month is allowed the fund will be taken out in 11 instalments. In this case, 1st instalment will be collected at the end of 6-month from the date of fund support and funds will be collected in quarterly instalments thereafter.
20. Investment made in the agro-based industrial sectors identified in the SMESPD Circular Letter # 1 dated 31 July 2012 will be eligible for funding support under this scheme.

C. <u>Principles for Funding Support Scheme for Financing Small Enterprises</u>

21. Cottage, micro and small entrepreneurship as defined in SMESPD Circular # 1 dated 19 June 2011 undertaken in manufacturing, service or trade sector shall be eligible for funding support under this scheme.
22. Up to 100% fund support shall be provided by Bangladesh Bank against sanctions of working capital and term investments worth from BDT 10 Thousand to BDT 50 Lac by PFIs.
23. PFIs will set market-based profit-rate/mark-up on investments at client level that result from general banker-customer relationship. However, underlining the importance of the social good, PFIs utilizing fund under this scheme are to take continuous measures to keep the profit rate realised from the client at the lowest possible level.
24. Priorities will be given to finances by PFIs to women entrepreneurs under this scheme and for this purpose only, the profit rate/mark-up shall not exceed more than the prevailing Bank Rate (Currently 5%) plus the rate of Mudaraba Savings Account.

25. 1-year working capital, 3-year for mid-term and 5-year long-term investments can be made under this scheme. Funds taken by PFIs under this scheme will be withdrawn as per following rules:
    a. Working Capital Investment: Fund shall be withdrawn with profit in a single instalment after the end of 1 year.
    b. Mid-term Investment: Fund shall be withdrawn with profit in quarterly instalments within a maximum period of 3 years with moratorium period, if applicable.
    c. Long-term Investment: Fund shall be withdrawn with profit in quarterly instalments within a maximum period of 5 years with moratorium period, if applicable.
    d. Moratorium Period: Moratorium periods may be provided in multiples of 3 months which shall not exceed 6 months to make calculations simple. Example: If moratorium period is not offered, a fund support for 3-year mid-term investment shall be taken out in 12 instalments. But if a moratorium period of 3-month is allowed the fund will be taken out in 11 instalments. In this case, 1st instalment will be collected at the end of 6-month from the date of fund support and funds will be collected in quarterly instalments thereafter.
26. Investments for farming crop and fish, consumer and personal investments are not eligible for funding support under this scheme.

Please acknowledge receipt.

Yours faithfully,

(Sukamal Sinha Choudhury)
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