

## Agricultural and CMSME Finance

9.1 Agriculture plays an important role as a priority sector of Bangladesh economy. It's also the main source of rural employment and income generating sector of the country. The contribution of this sector in GDP is 13.7 percent (constant price 2005-06 base). According to Labour Force Survey 2017, Bangladesh Bureau of Statistics, around 41 percent of the total workforce are directly engaged in agriculture sector. Besides ensuring food security, the agriculture sector has been playing an important role to meet up the nutrition demand, increase export earnings and augment total internal production of the country as a whole.

In line with the government view, Bangladesh Bank formulated "Agricultural and rural credit policy and program" to ensure adequate flow of funds to agricultural and rural economy properly, timely, easier and hassle-free way at the farmers level. With a view to improving the socio-economic condition of the country along with an underscored role of the agriculture and rural sector, agricultural and rural credit policy and program is being implemented through all scheduled banks. The role of the agriculture is immense even to encounter environmental calamity and the negative impact of climatic changes. So it is essential to develop the agriculture sector for the economic development of the country. During FY19, BDT 236.16 billion (108.33

**Table 9.1 Comparative Statement of Disbursement and Recovery of Agricultural Loan** (In billion BDT)

Disbursement	FY 17	FY 18	FY 19
<b>1. Disbursement (Target)</b>	175.5	204.0	218.0
a) Crops loan (other than tea)	86.5	102.9	116.9
b) Purchase and installation of irrigation equipment	4.9	7.8	6.2
c) Livestock	21.5	27.1	27.1
d) Marketing of agricultural goods	2.4	3.5	3.4
e) Fisheries	19.0	23.1	24.99
f) Poverty alleviation	10.0	12.6	11.9
g) Other agricultural activities	31.2	27.0	27.51
<b>2. Actual disbursement</b>	210.0	213.9	236.2
a) Crops loan (other than tea)	100.6	103.4	118.8
b) Purchase and installation of irrigation equipment	3.0	2.7	3.2
c) Livestock	30.6	30.6	32.5
d) Marketing of agricultural goods	1.1	1.1	1.2
e) Fisheries	24.1	24.6	26.8
f) Poverty alleviation	18.9	21.5	19.5
g) Other agricultural activities	31.7	30.0	34.3
<b>3. Term structure of loan disbursed</b>	210.0	213.9	236.2
a) Short term	171.1	178.7	199.3
b) Longer term	38.9	35.3	36.9
<b>4. Recovery</b>	188.4	215.0	237.3
<b>5. Due for recovery</b>	254.7	286.6	304.6
<b>6. Total outstanding loan</b>	390.5	406.0	429.7
<b>7. Overdue</b>	67.1	72.1	66.9
<b>8. Overdue as percent of outstanding</b>	17.2	17.8	15.6

\* Excluding BRDB and BSBL

Source: Agricultural Credit Department, Bangladesh Bank.

percent of target) has been disbursed as agricultural and rural credit against the target of BDT 218.00 billion through all scheduled (state-owned, commercial and specialized) banks (Table 9.1).

### The Major Achievement of Agricultural Credit Programme in FY19

9.2 The implementation of some important initiatives of this program are as follows:

- Around 3.88 million farmers availed agricultural and rural credit of which 1.60

million women got BDT 71.90 billion from different banks.

- Around BDT 4.92 billion was disbursed among about 0.084 million farmers through 16,188 open credit disbursement programs arranged by different banks.
- Around 2.99 million small and marginal farmers avail BDT 163.23 billion agricultural loans from different banks.
- About BDT 0.32 billion of agricultural and rural credit was disbursed among about 9950 farmers living in less developed area like haor, char, etc.
- Around 9.99 million bank accounts were opened by farmers in the state-owned commercial banks with an initial deposit of BDT 10 only.
- In the three Hill Tract districts, more than BDT 0.73 billion was disbursed by BKB among 21,717 tribal farmers at only 5.0 percent interest rate.

### Credit Disbursement to Agriculture

9.3 In recent years, agricultural and rural finance program seems to have boosted up

as the Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs) along with State-owned Commercial bank (SCBs) came forward to disburse agricultural credit in the country. The actual disbursement of BDT 236.16 billion in FY19 against the disbursement target of BDT 218.00 billion was 10.39 percent higher than the actual disbursement of BDT 213.93 billion in FY18.

Table 9.1 shows the comparative position of overall disbursement and recovery of agricultural loan and Charts 9.1 and 9.2 show targets and actual disbursement of agricultural loan respectively in FY18 and FY19.

9.4 About 84.37 percent of disbursement was short-term lending and the rest 15.63 percent was in the form of long-term loans for irrigation equipment, agricultural machinery, livestock etc. The credit for the production of crops constituted 59.61 percent of the total short-term loans during FY19 (Table 9.1).

9.5 The total outstanding loan in the agricultural sector (including all banks) in FY19 increased by BDT 23.73 billion or 5.84 percent to BDT 429.74 billion from BDT 406.01 billion in FY18 (Table 9.2).

**Table 9.2 Agricultural Credit Performance by Lenders\***

(In billion BDT)

	FY15	FY16	FY17	FY18	FY19					Total
					SCBs	BKB	RAKUB	PCBs	FCBs	
Disbursement target	155.50	164.00	175.50	204.00	31.95	50.00	16.80	113.44	5.81	218.00
Actual disbursement	159.80	176.50	209.99	213.93	32.74	61.34	18.85	115.60	7.64	236.16
Recovery	154.10	170.60	188.41	215.03	33.09	66.17	19.39	111.05	7.64	237.34
Overdue	67.29	56.78	67.08	72.11	23.98	19.06	14.20	9.68	0.00	66.92
Outstanding	329.40	344.80	390.48	406.01	107.19	164.15	45.68	108.51	4.22	429.75

\* Excluding BRDB and BSBL

Source: Agricultural Credit Department, Bangladesh Bank.

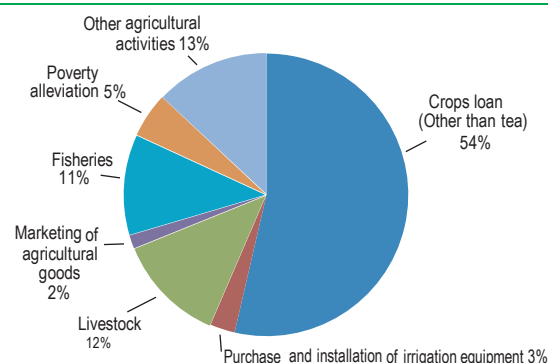
9.6 Two specialized banks, BKB, RAKUB and six SCBs played key role in the disbursement of agricultural and rural credit. The contribution of foreign and private commercial banks was also imperative in this regard. The SCBs, BKB, RAKUB, FCBs and the PCBs have exceeded the disbursement target by 2.47, 22.68, 12.19, 31.48 and 1.90 percent respectively in FY19 (Table 9.2). Apart from this, BRDB and BSBL disbursed BDT 9.99 billion from their own sources fund which raised the total disbursement to BDT 246.16 billion (including all banks) during FY19.

### Credit Recovery

9.7 During FY19, recovery of agricultural Credit increased by 10.38 percent to BDT 237.34 billion from BDT 215.03 billion in FY18 mainly due to close monitoring and intensive supervision of the banks. Consequently, the rate of recovery as a percent of due for recovery of agricultural credit was 77.91 percent during FY19 which was higher than that of 75.02 percent in FY18 (Table 9.1).

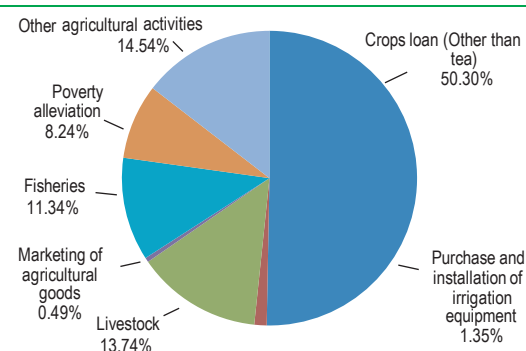
9.8 The overdue as percentage of outstanding agricultural loan decreased from 17.76 percent at the end of June 2018 to 15.57 percent at the end of June 2019 (Table 9.1 and 9.2). It is important that banks should take appropriate measures to disburse credit to the right farmer for harvesting of crop and to conduct proper intensive supervision to ensure smooth recovery.

**Chart 9.1 Target for Agricultural Credit Disbursement in FY19**



Source: Agricultural Credit Department, Bangladesh Bank.

**Chart 9.2 Actual Agricultural Credit Disbursement in FY19**



Source: Agricultural Credit Department, Bangladesh Bank.

### Sources of Agricultural Finance

9.9 Two specialized banks (BKB, RAKUB) and six SCBs played key role in disbursement of agricultural and rural finance. In addition to that PCBs are playing significant role in the annual disbursement of agricultural loans. In FY19, two specialized banks (BKB, RAKUB) and six SCBs disbursed BDT 112.93 billion or 47.82 percent, PCBs BDT 115.60 billion or 48.95 percent and FCB BDT 7.64 billion or 3.23 percent respectively of the total disbursement

of BDT 236.16 billion (Table 9.2). The SCBs' overdue loans as percent of their agricultural outstanding loans stood at 22.37 percent at the end of FY19, while the overdue loans of RAKUB and BKB were recorded to 31.08 and 11.61 percent respectively of their outstanding loans (Table 9.2). The PCBs' overdue loans as percentage of their outstanding loans stood at 8.92 percent at the end of FY19.

### Interest Subsidy from Government (Budgetary Allocation)

9.10 Credit disbursement at concessional interest rate for specified crops:

There is a large demand for pulses, oil seeds, spices and maize in the country. But the production of these crops is not sufficient. In order to encourage on production of such crops and disburse loan for these crops by the state-owned (commercial and specialized) banks at concessional interest rate in cultivation of pulses, oil seeds, spices and maize at farmers level has been set at 4% from 1 July 2010 under interest-loss subsidy facilities of the government. Along with the state-owned (commercial and specialized) banks, PCBs and FCBs disburse loan from FY12 against their annual agricultural and rural credit arget in pulse, oil seed, spices and maize cultivation under the government's facility of 5% interest subsidy. The scenario of this sector is shown in Table 9.3.

**Table 9.3 Credit Disbursement for Specified Crops** (In crore BDT)

FY	Target	Actual Disbursement	Percentage
FY17	90.76	81.66	89.97%
FY18	100.94	91.32	90.46%
FY19	109.48	108.81	99.38%

Source: Agricultural Credit Department, Bangladesh Bank.

During FY19, 37 banks availed BDT 22.00 million as five percent interest subsidy against their disbursement and actual recovery of FY18, on import substitute crops (Pulse, Oilseed, Spices and Maize). During FY19, BDT 1088 million disbursed by banks on import substitute crops and corresponding interest subsidy is under process to release as per policy.

### Refinance Facility from Bangladesh Bank

#### Refinance Facility under Government Guarantee

9.11 With a view to enriching country's economy and food security, BB has been continually supporting BKB & RAKUB by providing refinance facility under government guarantee. The rate of interest at the PFI level is 5.0 percent and ultimate borrower level is 9.0 percent and loan tenure is maximum 01 year. During FY19, RAKUB has availed BDT 5.0 billion refinance facility from Bangladesh Bank against their agricultural and rural credit finance. Details of refinance positions under government guarantee are shown in the table 9.4

#### Refinance Scheme for Milk Production and Artificial Insemination

9.12 In order to ensure nutrition security for mass people of the country and to reduce

**Table 9.4 Bangladesh Bank's Refinance against Agricultural Loans (Under Government Guarantee)** (In billion BDT)

	FY17			FY18			FY19		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	0.00	2.40	24.99	0.00	1.94	23.05	0.00	1.65	21.40
RAKUB	0.00	1.20	7.48	3.00	0.50	9.98	5.00	3.67	11.49
Total	0.00	3.60	32.47	3.00	2.44	33.03	5.00	5.32	32.89

Source: Agricultural Credit Department, Bangladesh Bank.

dependency on imported milk and milk products as well as to promote self-employment for unemployed youth, BB has introduced a refinance scheme for milk production and artificial insemination scheme with a fund of BDT 2.00 billion since 2015. Fourteen participating banks and financial institutions entered into a participation agreement with Bangladesh Bank to avail refinance facility and interest subsidy at 5%. The banks and financial institutions get refinance from Bangladesh Bank against their disbursed amount. After recovery of the loans from the borrowers, the concerned banks and financial institutions will be eligible for 5.00 percent interest subsidy from the government against their disbursed amount subject to fulfillment of terms and conditions. Up to FY19, the participating banks and financial Institutions have disbursed BDT 2.0 billion to the end borrowers. A total of 18,429 borrowers benefitted from the scheme.

#### Refinance Scheme for the Jute Sectors

9.13 In FY15, BB undertook a revolving refinance scheme of BDT 2.0 billion to provide working capital to jute goods manufacturing companies and jute exporters. A total of 18 banks availed this

refinance facility of BDT 0.79 billion against their disbursement to purchase raw jute from 25 jute producers and exporters during FY19.

#### Demand Loan

9.14 Apart from refinance scheme of BB and refinance against Government guarantee, a special type of finance is assisted by BB to meet up the regular agricultural credit flow. Those are demand loan by 90 days of maturity against DP note. During FY19, BKB availed BDT 7.0 billion & RAKUB availed BDT 3.00 billion of demand loan.

#### Donor-financed Revolving Funds of Grameen Bank, Managed by Bangladesh Bank

#### Swedish International Development Authority (SIDA) Grant

9.15 The grant was provided by the Swedish International Development Authority (SIDA). The total size of the grant is BDT 0.24 billion. This grant is governed as per loan agreement signed between the Government of Bangladesh and Grameen Bank (GB) on 30 November 1986. GB repays the half-yearly installments of principal and revolving funds on 15 March and 15

September each year to Bangladesh Bank (BB), and BB revolves the repayment amount on the same day of payment made by Grameen Bank.

#### **Norwegian Agency for International Development (NORAD) Grant**

9.16 The grant was provided by the Norwegian Agency for International Development (NORAD). The total size of the grant is BDT 0.27 billion. This grant is governed as per loan agreement signed between the Government of Bangladesh and Grameen Bank (GB) on 4 August 1986. GB repays the half-yearly installments of principal and revolving funds on 15 March and 15 September each year to Bangladesh Bank (BB), and BB revolves the repayment amount on the same day of payment made by Grameen Bank.

#### **Grameen Bank House Loan Scheme**

9.17 The grant was provided by the Netherland Government. The total size of the grant is BDT 0.04 billion. This revolving grant is governed as per the loan agreement signed between the Bangladesh Bank (BB) and Grameen Bank (GB) on 24 November 1985. Under this scheme, members of Grameen Bank get the loan for construction of houses. GB repays the half-yearly installments revolving funds on 15 December each year to BB, and BB revolves the repayment amount on the same day of payment made by Grameen Bank.

#### **Development Partner's Funded Agricultural Credit Related Project/Program Operated under Bangladesh Bank's Supervision**

#### **Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project (SMAP)**

9.18 With a view to increasing agricultural productivity and diversity of the small and marginal farmers of Bangladesh by financing agricultural loans and providing agricultural technical support service to farmers through Microfinance Institutions, thereby contributing to the sound development of agricultural finance and the agricultural sector of Bangladesh this revolving pre-finance project formed and started its journey in 2015. Japan International Cooperation Agency (JICA) is the donor agency for this project and GoB portion of this project is contributed by Bangladesh Bank. The total project cost is BDT 8.23 billion. The tenure of the project is 2014-2021. To avail pre-finance facility from the projects, 11 participating Microfinance Institutions (PMFIs) signed an agreement with BB. During FY19, BDT 4.80 billion has been disbursed to 70,000 end borrowers through 11 PMFIs. Future planning/projection of the project: Operations have already been started for developing 30 model branches, which were picked up earlier from 1400 branches (approximate) that are operating for implementing SMAP.



The vision of SMAP-PIU is to extract and incorporate all distinctive activities of model branches in other branches. Besides disbursing credit, Technical Support Services (TSS), a unique part of the project, have been provided to end borrowers of this project for familiarizing themselves with new scientific cultivation method, new agro-machinery and a new method of cattle rearing etc. Since the operation of this project 2.1 million borrowers have received TSS on different topics.

#### **ADB Funded Northwest Crop Diversification Project (NCDP)**

9.19 Northwest region of the country was the poorest and backward region where 62 percent of the populations lived below poverty line. To promote the economic growth of that region and to reduce poverty through diversification and intensification of High-Value Crops (HVCs) this ADB funded project initiated in 2001. Loan component of the project are 35.71 million SDR. Project implementation period was 2001 to 2009. But the project continued up to June' 2019.

Project implementation area covers 61 Upazilas of 16 districts of north-western zone of Bangladesh. As of 30 June 2019, a total of BDT 3.00 billion disbursed to the end borrower from beginning of the project. The number of farmers covered by the project are 0.17 million.

#### **ADB Funded Second Crop Diversification Project (SCDP)**

9.20 The project was built on the successful activities of NCDP and expands the activities to new project areas. Loan component of the project are USD 26 million by ADB. The project starts its operation in 2011. For wholesale of credit the participation agreement signed between BB & BASIC Bank Ltd and Eastern Bank Ltd on 2011. Project implementation area covers 54 upazilas of 25 districts of north and south-western zone of Bangladesh. As of June 30, 2019, total fund BDT 2.03 billion disbursed to the end borrower from beginning of the project. The number of farmers covered by the project is 2,03,000.

**Table 9.5 Disbursement of CMSME Credit by Banks and NBFIs**

(In billion BDT)

Period	Sub - categories			Total	Women entrepreneur
	Manufacturing	Service	Trading		
FY11	154.36	32.37	365.83	552.56	20.07
FY12	183.84	35.09	379.19	598.12	23.11
FY13	233.04	42.02	518.41	793.46	24.72
FY14	251.29	60.60	594.47	906.36	36.51
FY15	323.50	98.94	680.43	1102.87	39.68
FY16	329.97	141.33	819.38	1290.68	54.88
FY17	373.78	184.44	999.63	1557.85	45.96
FY18	488.71	266.91	802.47	1558.09	121.74
FY19	578.07	342.48	703.72	1624.27	60.01

Source : SME & Special Programmes Department, Bangladesh Bank

**Table 9.6 Statement of Refinance on CMSMEs under Different Refinance Schemes of BB (up to June 2019)**

(In billion BDT)

Name of Fund	Amount refinance				No. of beneficiary (sector wise)			
	Working capital	Mid term loan	Long term loan	Total loan	Industry	Trade	Service	Total
1. Refinance Scheme for Agro based Industries in Rural Areas	7.42	2.28	7.29	16.99	2,337	-	-	2,377
2. Small Ent. Refinance Scheme:	9.10	20.74	8.30	38.14	12,416	18,172	5,114	35,702
i) Bangladesh Bank Fund	8.54	19.63	7.73	35.90	11,923	17,112	4,917	33,952
ii) Bangladesh Bank Extension Women Enterprinur Fund	0.56	1.11	0.57	2.24	493	1,060	197	1,750
3. New Enterprises Refinance Fund for CMSEs	0.003	0.18	0.02	0.20	201	-	166	367
4. Islamic Shariah-based Refinance Fund	3.73	0.46	1.17	5.36	165	521	45	731
5. JICA FSPDSME	0.68	3.84	3.26	7.78	509	34	387	930
6. JICA UBSP	-	-	0.37	0.37	5	-	-	5
7. IDA Fund (EGBMP)	0.80	1.33	1.00	3.13	1,368	1,306	486	3,160
8. SMESDP (ADB-1)	1.45	1.32	0.58	3.35	800	2,096	368	3,264
9. SMEDP (ADB-2)	0.00	5.68	1.79	7.47	3,765	7,435	2,445	13,645
<b>Grand Total</b>	<b>23.18</b>	<b>35.83</b>	<b>23.78</b>	<b>82.79</b>	<b>21,606</b>	<b>29,564</b>	<b>9,011</b>	<b>60,181</b>

Source : SME &amp; Special Programmes Department, Bangladesh Bank

### Marginal And Small Farm Systems Crop Intensification Project (MSFSCIP)-Kurigram District

9.21 The project is financed by the International Fund for Agricultural Development (IFAD) and the loan component is BDT 0.14 billion. The project is implementing at the nine thana of Kurigram district. Four PFI signed a participation agreement with BB. Project period was from 1987 to 1997, but refinancing is still going on as revolving fund. PFI availed refinance from BB at bank rate. At the beneficiary level interest rate are determined by the PFI. As of 30 June 2019, the balance of revolving fund was BDT 0.05 billion.

### Pre-finance under Government Guarantee Ansar-VDP Unnayan Bank

9.22 Bangladesh Bank provides prefinance facility to Ansar-VDP Unnayan Bank for implementing its "Agricultural Credit

Programme". The objective of this facility is to extend credit facilities to the members of Ansar-VDP aimed towards poverty alleviation and expanding income generating activities. These loans are provided against government guarantee covering the loan amount and interest accrued thereon. As of 30 June 2019, the outstanding principal of loans is BDT 2.75 billion. Bangladesh Bank provides these loans at bank rate (5 percent) and the maximum interest rate at borrower level is 9 percent. During FY19, 6,410 beneficiaries have been benefitted from this programme.

### Karmasangsthan Bank

9.23 Karmasangsthan Bank avail prefinance facility time to time from Bangladesh Bank. These loans are provided against government guarantee covering the loan amount and interest thereon. From July 2015 to June 2019, BDT 2.10 billion has been provided to Karmasangsthan Bank.



Bangladesh Bank provides prefinance at bank rate (5.0 percent) and Karmasangsthan Bank charges a maximum of 9.0 percent from the end borrowers. The total number of beneficiaries were 5438 during FY19.

### Financing Cottage, Micro, Small and Medium Enterprises (CMSMEs)

9.24 Cottage, Micro, Small and Medium Enterprises (CMSMEs) have been playing a significant role in employment generation, poverty reduction and overall economic growth of the country. BB has established a new department named "SME & Special Programmes Department" (SMESPD) in 31 December 2009 dedicated for CMSME development in Bangladesh. SMESPD started its journey towards the development of CMSMEs in Bangladesh by improving existing environment in the banking sector through regulatory and policy interventions. Banks and NBFIs have given much emphasis on financing to CMSMEs.

**Table 9.7 Sector-wise Refinance Classification (Agro-based Product Processing) till June 2019**

Sector	Percent
Rice industry	50.18
Agro feed	9.93
Maida	7.11
Bakery	6.47
Agro machine	4.55
Poultry	4.27
Others	17.49

Source: SME & Special Programmes Department, Bangladesh Bank.

9.25 Moreover, BB has undertaken different refinance schemes to provide relatively low cost funding to encourage banks and NBFIs in CMSME financing. To develop CMSME sector, BB has continued its refinance facilities in FY19 for banks and NBFIs against their financing to CMSMEs. Currently, BB is providing refinance facilities to banks and NBFIs from refinancing scheme for agro-based product processing industry; small enterprise; new entrepreneurs in cottage, micro and small industry; islamic shariah-based financing; JICA assisted financial sector project for the development of SME (FSPDSME) fund and JICA assisted urban Building Safety Project (UBSP). Banks and NBFIs have come forward for financing

**Table 9.8 Refinancing under Small Enterprise Refinance Scheme** (In billion BDT)

Name of Fund	Amount Refinance (BDT in Billion)				No. of Beneficiary (sector wise)			
	Working Capital	Mid Term Loan	Long Term Loan	Total Loan	Industry	Trade	Service	Total
<b>A. BB Fund-General</b>								
1 Bank (20)	7.65	9.66	3.32	20.63	7,248	12,352	2,930	22,530
2 NBFIs (23)	0.89	9.97	4.41	15.27	4,675	4,760	1,987	11,422
Sub - Total	8.54	19.63	7.73	35.90	11,923	17,112	4,917	33,952
<b>B. BB Extension - 2014</b>								
1 Bank (27)	0.51	0.37	0.23	1.11	242	719	109	1070
2 NBFIs (17)	0.05	0.74	0.34	1.13	251	341	88	680
Sub - Total	0.56	1.11	0.57	2.24	493	1,060	197	1,750
<b>Total</b>	<b>9.10</b>	<b>20.74</b>	<b>8.30</b>	<b>38.14</b>	<b>12,416</b>	<b>18,172</b>	<b>5,114</b>	<b>35,702</b>

Source : SME & Special Programmes Department, Bangladesh Bank

**Table 9.9 Refinancing from New Entrepreneurs Refinance Fund**

(In million BDT)

Banks/NBFIS	Amount refinance				No. of beneficiary (sector wise)			
	Working capital	Mid Term loan	Long term loan	Total loan	Industry	Trade	Service	Total
Banks (6)	1.0	6.9	11.3	19.2	41	-	86	127
NBFIs (3)	2.0	176.4	4.5	182.9	160	-	80	240
Total	3.0	183.3	15.8	201.1	201	-	166	367

Source : SME &amp; Special Programmes Department, Bangladesh Bank

and development of CMSMEs under close monitoring and supervision of BB. In FY19, all banks and NBFIs have disbursed an amount of BDT 1624.27 billion against 755,374 CMSMEs. On the other hand, 55,465 women led CMSME enterprises received financing of BDT 60.01 billion in FY19 from banks and NBFIs.

### Target-based Disbursement for CMSME Credit

9.26 A target-based lending to CMSMEs has been initiated since 2010. Banks and NBFIs have been disbursing credit to CMSMEs following their indicative target set on a calendar year (January-December) basis.

9.27 A target of disbursing BDT 1,769.02 billion in CMSME was set for 2019. During the first half (January-June) of 2019, banks and NBFIs have disbursed BDT 799.84

billion as CMSME credit which is almost 45.21 percent of the target for 2019. Table-9.6 reveals fiscal year wise disbursement of CMSME credit in three sub-categories: manufacturing, services and trading.

### Refinance Schemes

9.28 In addition to regular financing from their own fund, banks and NBFIs are also making short to long term financing to CMSMEs through refinance schemes of BB. SMESPD of BB, with the help of government and different development partners, is implementing a total of six pre-finance/refinance schemes for banks and NBFIs currently against their disbursed CMSME credit. All these funds are revolving in nature. In addition to those, three other refinance schemes have been successfully completed (Table 9.6). A total amount of BDT 82.79 billion has been provided to different banks and NBFIs under different

**Table 9.10 CMSME Refinance Scheme for Islamic Shariah-Based Financing in "Agro-Based Industries", "Small Entrepreneurs' (Including Women Entrepreneur)" and "New Entrepreneurs' in Cottage, Micro & Small Enterprise Sector"**

(In billion BDT)

Banks/NBFIS	Amount Refinance				No. of Beneficiary (sector wise)			
	Working capital	Mid term loan	Long term loan	Total loan	Industry	Trade	Service	Total
1 Banks (3)	3.46	0.12	0.00	3.58	107	475	30	612
2 NBFIs (1)	0.27	0.34	1.17	1.78	58	46	15	119
Total	3.73	0.46	1.17	5.36	165	521	45	731

Source : SME &amp; Special Programmes Department, Bangladesh Bank

refinance/pre-finance schemes up to June 2019 against 60,181 enterprises. Out of the total refinance, BDT 23.18 billion has been provided as working capital, BDT 35.83 billion as medium term loan, and BDT 23.78 billion as long term loan.

### **BB's Refinance/Pre-finance Facilities to Banks And NBFIs for Promoting CMSMEs**

#### **Refinance Scheme for Agro-based Product Processing Industries in Rural Area**

9.29 In order to boost up agro product-processing industries in the areas outside divisional headquarters and Narayanganj town, BB launched a scheme of BDT 1.00 billion in November 2001 out of its own fund. Responding to the huge demand of this fund, the size of the fund was increased to BDT 2.00 billion in 2012; BDT 4.00 billion in 2013, BDT 4.50 billion in 2015 and later on BDT 7.00 (approx) billion in 2018. Under this fund, refinancing facilities are being provided to banks and NBFIs at bank rate (currently 5 percent) and beneficiary of CMSMEs are getting funds at preferential interest rate within 9.00 percent (bank rate + maximum 4 percent spread). An amount of BDT 16.99 billion has been disbursed under this scheme up to June 2019 against 2377 enterprises on revolving basis (Table-9.6).

From 2004 to 2019 banks and NBFIs have financed in 31 different sectors by taking refinance facility from this fund. Sector-wise

refinance classification for agro-based product processing fund till June 2019 is shown in Table - 9.7.

#### **Small Enterprise Refinance Scheme**

9.30 Bangladesh Bank introduced a refinancing scheme named Small Enterprise Fund (SEF) of BDT 1.00 billion out of its own fund for supporting the development of small enterprises in the country in 2004. Later on, to meet up the increasing demand from end borrower especially from women entrepreneurs the fund size has been increased to BDT 8.5 billion. For accounting purpose, small enterprise refinance scheme maintains 2 different accounts; as mentioned in table-9.6. This is a revolving fund in nature. Up to June 2019, BDT 38.14 billion has been refinanced under this fund among 35,702 enterprises (Table- 9.8).

#### **Refinance Scheme for New Entrepreneurs' in Cottage, Micro and Small Enterprise (CMSE) Sector**

9.31 In order to provide start-up capital to new cottage, micro and small enterprises, BB has created a fund worth BDT 1.00 billion from its own source in 2014. Under this fund, the prospective entrepreneurs selected and trained by recognized public and private training providers have the opportunity to get up to BDT 2.5 million CMSE loan with collateral security and up to BDT 1.00 million CMSE loan without collateral security. Rate for such credit is limited at maximum 10 percent (bank rate + maximum 5 percent

spread). As of 30 June 2019, a total of 367 new entrepreneurs have been refinanced worth BDT 202.10 million from this scheme (Table-9.9).

### **Refinance Scheme for Islamic Shariah-based Financing**

9.32 With the objective of increasing the involvement of Islamic banks and NBFIs in CMSMEs financing, a special refinance fund under Islamic Shariah mode was created in BB vide BRPD circular no. 13 dated 18 September 2014. Under this fund, Islamic banks and NBFIs will get refinance against their financing to "agro-based industries", "small entrepreneurs" (including women entrepreneur) and "new entrepreneurs" in cottage, micro & small enterprise sector". At the end of June 2019, BDT 5.36 billion has been refinanced to banks and NBFIs against their financing to 731 enterprises (Table-9.10).

### **JICA Funded FSPDSME Project's Two Step Re/Pre-finance Fund**

9.33 A loan agreement was signed between JICA, Japan and the Government of Bangladesh in 2011 for SME development and financing. As per the loan agreement, BB is implementing the "Financial Sector Project for the Development of Small and Medium-Sized Enterprise (FSPDSME)-BD-P67" project. The objective of the project was to create a medium to long-term financing market for SMEs specially for the productive investments. The Fund size was

5,000.00 million Japanese Yen including a technical assistance component. A total of 25 banks and 21 NBFIs signed participating agreements with SMESPD, BB. Refinancing or pre-financing facilities were being provided to participating financial institutions (PFIs) at the bank rate (currently 5 percent) for on lending to CMSME sub-projects of productive investment for medium to long-term duration at the market rate. In the backdrop of tragic incidence of Rana Plaza collapse, a special initiative to finance the RMG sector for the improvement of safe working environment was taken under the JICA assisted FSPDSME project in 2013. RMG factories which are members of BGMEA and/or BKMEA with labor employment of 100 - 2,000 provided that the factory building was owned by the applicant entrepreneur would get loan facility up to BDT 0.10 billion for the purpose of retrofitting, rebuilding and relocation of their factory buildings. The FSPDSME project was completed successfully within the project period (by the end of June 2016). Meanwhile, the project received full allocation of two step loan (TSL) fund from JICA for disbursing the revolving fund to the accredited PFIs. As on June 2019, BDT 7.77 billion has been refinanced against 930 enterprises (Table-9.6).

### **Urban Building Safety Project (UBSP)**

9.34 For the purpose of creating a safe working environment in the RMG sector through retrofitting, rebuilding and relocation

of vulnerable RMG industries, the "Urban Building Safety Project" has been taken under the 36th Japanese ODA package. A loan agreement between the Government of Japan (represented by JICA) and Government of Bangladesh has been signed on 13 December 2015. Under this agreement JICA will provide JPY 12,086 million; of which JPY 4,129 million (equivalent to BDT 2.68 billion) is earmarked for TSL purposes. The TSL component will be managed and implemented by SMESPD, BB in accordance with approved operating guideline of the project. A total of 25 banks and 10 NBFIs signed participating agreements with SMESPD, BB until June 2019. As on June 2019, BDT 0.37 billion has been refinanced against five (05) enterprises (Table-9.6).

### **New Entrepreneurs Creation and Entrepreneurship Development**

9.35 BB not only engaged itself for mainstreaming banks and NBFIs in financing CMSME enterprises, but also has taken steps for creating of new entrepreneurs and entrepreneurship development. The Government of Bangladesh (GoB) has taken a project titled "Skills for Employment Investment Program (SEIP)" with the assistance of Asian Development Bank (ADB) and Swiss Agency for Development and Cooperation (SDC) to scale up skills of young workers and new entrants. BB is serving as the implementing agency of the project. SEIP project aimed to provide

market oriented job training to 10,964 people at the end of December 2019. In this regard, as of June 2019, 10,884 trainees have been enrolled in different courses out of which 10,664 trainees received certificate after successful completion and 7,589 trained personnel have been employed in different CMSME sectors and 2,283 have become self employed.

### **Implementation of New Projects**

#### **Local Finance Initiatives (LFI) Support to SMEs in Bangladesh**

9.36 A pilot project in the name of "Local Finance Initiatives (LFI) - support to SMEs in Bangladesh" has been initiated by BB with the support of United Nations Capital Development Fund (UNCDF). The objective of this project was to support prospective Women CMSME entrepreneurs in certain SME clusters for business development and making them eligible to avail loan facility from the banking sector by providing collateral support. The size of the seed money for issuing credit guarantee is BDT 0.016 billion. A total of 21 credit guarantee has been issued valued BDT 0.018 billion against bank financing of BDT 0.023 billion.

#### **Programme to Support Safety Retrofits and Environmental Upgrades in the Bangladeshi Ready-Made Garment (RMG) Sector Project (SREUP)**

9.37 SMESPD of BB is implementing a project specially designed to strengthen

economic sustainability of the RMG sector named "Program to Support Safety Retrofits and Environmental Upgrades in the Bangladeshi Ready-Made Garment (RMG) Sector Project (SREUP)". With Euro 50 million credit & Euro 14.29 million grant facilities from Agence Française de Développement (AFD) and other developing partners such as European Union (EU), KfW Development Bank, German Agency for International Cooperation (GIZ) and BB, this project has been initiated to develop sustainable, safe and environment friendly RMG sector through financial and technical support. As the title suggests the overall objective of the project is to provide technical assistance to the banking sector and RMGs of Bangladesh to enhance the capability of investing in RMG sector to ensure RMGs' full compliance with "Accord and Alliance" (group of American and EU Buyers) as well as respective national regulations. Thus the project aims to investment and incentivize grants in the RMGs safety retrofitting, environment and safety up gradation which will make them compliant to boost the export of RMGs in Bangladesh. For the RMG owners, interest rate would be maximum 7% in order to be attractive for factories. Repayment period of the loan would be in the range of 3 to 5 years. The project implementation period is from 1 January 2018 to 31 December 2022. BBB has signed participation agreement with 5 banks & 2 NBFs on 30 July 2019. The selected banks & NBFs as PFI are:

Southeast Bank Ltd, One bank Ltd, NCC Bank Ltd, Bank Asia Ltd, Mutual Trust Bank Ltd, IDLC Finance Ltd & IPDC Finance Limited. RMG owners can take the loan facility from these banks/NBFIs under this project. This project has an aim of upgrading around 150 factories. This intervention would help to sustain the RMG sectors' contribution to the economy as well as the export earning of Bangladesh by helping RMG factories to remain in the capacity of maintaining and developing their commercial partnerships with foreign retailers.

### **Steps Taken by BB for Development of CMSMEs until June 2019**

9.38 Major initiatives of BB for promoting credit flow to CMSME sector are:

- ◆ CMSME credit disbursement target has been revised to be increased to 25 percent by 2021 with minimum 1 percent increment in each year.
- ◆ To ensure sector-wise distribution of overall CMSME credit portfolio, a target for at least 40 percent for manufacturing, 25 percent for service and a maximum ceiling of 35 percent for trading has been instructed by BB to be achieved by all banks/NBFIs within 2021.
- ◆ CMSMEs have been redefined in line with the National Industrial Policy-2016 and 'turnover' for trading concern has been added as an additional criterion for sector determination.



- ◆ Banks and NBFIs are instructed to disburse 50% of the total CMSME loan to cottage, micro and small (CMSs) sector by 2021.
- ◆ Maximum credit limits for different types of CMSMEs have been imposed and 'trading industry' has been removed from medium and cottage category.
- ◆ Banks and NBFIs are instructed to provide three (03) months grace period for one (01) year term loan and three to six (03/06) months grace period for medium to long term loan based on banker-customer relationship.
- ◆ To enhance CMSME activities, quarterly monitoring meeting is held with SME heads of banks and NBFIs regularly. Also, CMSME monitoring cell has been established in all branches of BB. Banks and NBFIs are also performing three (03) stages SME monitoring for better outcome.
- ◆ New Entrepreneurs Refinance Scheme in CMSE sector allows collateral security free financing more than BDT 1.00 million on case to case basis and collateral security supported financing up to BDT 2.5 million for new entrepreneurs.
- ◆ Cluster based financing to CMSMEs has been expedited. Banks and NBFIs are advised to formulate a cluster development policy for strengthening

existing clusters and developing new clusters.

### **Special Incentives for Women Entrepreneurs**

9.39 Sustainable economic development is barely possible without women empowerment. For mainstreaming women in economic activities, SMESPD has taken a number of policy initiatives so as to ensure women entrepreneurs to have financial facilities on simple terms and conditions. Some of the initiatives of BB are outlined below :

- To ensure loan facility for CMSME women entrepreneurs, banks and NBFIs are instructed to disburse at least 15% of the total CMSME loan among women entrepreneurs;
- Instructions have been given for establishing separate 'Women Entrepreneurs Dedicated Help Desk' in each branch of every bank and NBFI. If possible, they are also advised to employ a female official in the desk to provide suggestions and services towards women entrepreneurs regarding project preparation, loan application process etc.
- Instructions were given to banks and NBFIs to consider sanctioning loan up to BDT 2.5 million to women entrepreneurs without collateral security but against personal guarantee under the refinance facilities provided by BB.

- In order to include a large number of micro women entrepreneurs in the CMSME credit facilities, a policy of group-based lending has been initiated.
- In order to expedite the process of women entrepreneurship development, BB has opened a separate "Women Entrepreneurs Development Unit" in its head office and branch offices. All banks and NBFIs are also advised to open such unit.
- A maximum lending cap of 9.0 percent (bank rate + maximum 4.0 percent spread) has been imposed for financing to women led enterprises under all refinancing scheme.
- All banks and NBFIs are advised to find out and train at least three (03) prospective CMSME women entrepreneurs who have not received any financing yet per branch and finance at least one (01) of them in each year.

### Microcredit Operations of Grameen Bank and the Large MFIs

9.40 The success of Bangladesh microfinance operation is now a globally accepted issue. To institutionalize this microfinance operation and build up an inclusive financial market for economic development of the country, Microcredit Regulatory Authority (MRA) as the regulator of the microfinance sector is working

**Table 9.11 Microcredit Operations of the Grameen Bank and Large MFIs**

	(In billion BDT)		
	FY17	FY18	FY19
<b>1. Disbursement</b>	<b>831.56</b>	<b>964.65</b>	<b>1072.33</b>
i) Grameen Bank	207.89	243.21	251.37
ii) BRAC	266.63	318.06	396.12
iii) ASA	269.59	296.81	283.68
iv) TMSS	33.06	43.23	49.67
v) BURO Bangladesh	54.39	63.34	91.48
<b>2. Recovery</b>	<b>731.74</b>	<b>849.15</b>	<b>996.07</b>
i) Grameen Bank	182.70	225.59	245.06
ii) BRAC	238.98	285.76	350.40
iii) ASA	234.87	299.51	284.57
iv) TMSS	29.14	38.28	45.09
v) BURO Bangladesh	46.05	0.00	70.94
<b>3. Outstanding bans</b>	<b>496.24</b>	<b>561.44</b>	<b>638.44</b>
i) Grameen Bank	134.57	152.20	158.51
ii) BRAC	155.48	184.71	230.43
iii) ASA	154.71	161.99	161.10
iv) TMSS	18.70	23.50	288.23
v) BURO Bangladesh	32.78	39.04	59.57
<b>4. Loan overdue</b>	<b>7.80</b>	<b>13.28</b>	<b>14.07</b>
i) Grameen Bank	0.56	0.50	0.92
ii) BRAC	2.35	4.39	3.56
iii) ASA	3.67	6.35	6.47
iv) TMSS	0.56	0.74	1.16
v) BURO Bangladesh	0.66	1.30	1.95
<b>5. Overdue as percentage of outstanding</b>	<b>1.57</b>	<b>2.37</b>	<b>3.28</b>
i) Grameen Bank	0.41	0.33	0.58
ii) BRAC	1.51	2.38	1.50
iii) ASA	2.37	3.92	4.02
iv) TMSS	3.02	3.13	4.04
v) BURO Bangladesh	2.00	3.33	3.28

Source: Microcredit Regulatory Authority (MRA)

dynamically. Since the inception, MRA is regulating MFI's and its microfinancing activities through MRA-act, MRA-regulations, circular, off-site supervision and on-site supervisions. MRA has already issued 842 licenses for microfinance operation and cancelled 118 licenses due to non-compliance till June 2019. In addition, MRA has given provisional permission to 68 MFIs to operate microfinance activities from the applications submitted in 2012. In FY19, the 724 licensed MFIs disbursed more than BDT 1403.17 billion to 30.10 million clients. The

total savings of microfinance sector is more than BDT 295.40 billion.

9.41 Palli Karma Sahayak Foundation (PKSF) has been established in line with the own thoughts and ideas of the Government of Bangladesh to broaden and smoothen microfinance process. Since inception in May 1990, the PKSF has been working as an apex microcredit funding and capacity building organisation for alleviating poverty by providing microcredit to the poor through its partner organisations (POs). The loan

given by PKSF to 278 POs was BDT 369.86 billion in FY19, which was BDT 59.36 billion or 19.18 percent higher than BDT 310.5 billion in FY18.

9.42 Grameen Bank was established with the vision of poverty eradication, i.e. the economic emancipation and advancement of social status of the poor. In FY19, the total amount of loan disbursed by Grameen Bank is BDT 2513.70 billion. Out of this, BDT 2450.61 billion has been repaid.