

Survey

on

MSME Financial Inclusion Indicators, 2016

April 2018



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Executive Summary

Micro, Small and Medium Enterprises (MSME) sector has been considered as a tool for economic development, particularly in the areas of poverty reduction, employment generation, wealth creation and improving welfare and general standard of living in the developing and emerging countries. The MSME financial inclusion becomes a viable option for nursing the entrepreneurs to establish more small scale industries with a view to accelerate inclusive growth of developing and emerging countries like Bangladesh. Therefore, MSME is the sector that can largely contribute to GDP growth through deploying its large unemployed young workforce to utilize the demographic dividend fully.

It may be mentioned that to expedite the MSME sectors' growth globally, developing and emerging countries came to an agreement with a view to exchange views and information on financial inclusion among them and launched an international union named Alliance for Financial Inclusion (AFI) in 2008. The Maya Declaration Commitments in 2011 have been playing catalytical role for promoting AFI activities. As a member country of AFI, Bangladesh has signed in Maya Declaration Commitments (MDCs) on 11 September, 2014 and has adopted 32 specific targets covering various policies relating to financial inclusion and financial education. Among the specific targets, 16 have already been achieved and some progresses have also been made in fulfilling other targets. In line with this, AFI has added 24 new targets for the year 2017. According to the MDCs, Bangladesh Bank (BB) has to attain 2 targets; a) The target for achievement of 32% share of MSME and agriculture financing to total financing by banking sector (joint commitment with MRA & MoF) has already been achieved; and b) to conduct Survey on MSME Financial Inclusion Indicators by 2016 which has not been attained yet. In this backdrop, on request of SME & Special Programmes Department (SMESPD), Research Department (RD) of Bangladesh Bank took initiatives and completed the above stated survey jointly with (A team comprised of 6 members) SME &

SPD and FID (Financial Inclusion Department) to assess impact of the financial inclusion indicators on MSME in Bangladesh.

To accomplish the above stated survey, primary data have been gathered through interview method using two sets of questionnaire; one for MSME institutions/entrepreneurs and other for bank branch incumbents. The survey team collected the data of around 800 respondents: 680 of MSME entrepreneurs of 3 categories: Micro, Small and Medium (MSME) and 120 Incumbents of the bank branches involved in MSME financing covering all 8 divisions across the country.

The survey finds that there is a gap between demand and supply of available funds in MSME sector. Banks as the supplier are not fully able to supply that adequate amount of fund demanded by the MSME entrepreneurs. However, the results support that as a whole, MSME business have sufficient access to financial services. Almost all (97 percent) of the sample respondents reported that they do not face any difficulties in getting MSME loan.

The survey also revealed that a large portion of the respondents (89 percent) reported opening a bank account for the business purposes is not so difficult. On the other hand, on an average, 26 days required to get sanction of the loan. It may be observed that required time for sanctioning loans is high because of getting approval from the higher authority and fulfilling other procedures of the concerned banks. Almost all the respondents, 98 percent reported that bank services are good and around 96 percent of them opined that they did not undergo any type of mistreatment by the bank officers. Besides, approximately 96 percent of the respondents reported that they are well-known about the terms and conditions of the banks for taking loans.

Moreover, the study finds that bank incumbents sanctioned MSME loans to the entrepreneurs considering some factors which might help remain themselves competitive in the market and mitigate risk. 94 percent bankers expected that MSME loan should be expanded as there is a gap between demand and supply because of continuous increase of MSME enterprises in the market. The survey finds that almost all the bank branches have

separate service help desk for women entrepreneurs to encourage and motivate them. The study finds that on an average, 94 percent bankers expected that MSME loan portfolio should be expanded in upcoming days as there is a gap between demand and supply due to higher growth in MSME Enterprises.

From the supply side responses the study finds that around 84 percent MSME loans are backed by collateral. On the other hand, 16 percent of the MSME loans are collateral free. Therefore, the results support the demand side responses. Several reasons are observed from responses of banks regarding unsuccessful applications for MSME loans such as responses had insufficient collaterals security, classified clients of other bank/(s), manipulation of trade licenses and other documents, threat of fund diversion, poor business transaction, no banking relationship, proper fund requirements in business are not clear etc. The survey also finds that approximately 85 percent of the bank branches reported that they have inspection team to examine the information on MSME activities.

Apart from some limitations, the study may give some insights to formulate more appropriate and effective policy to broaden the scope for MSME entrepreneurs to ensure a well-disciplined segment in the banking sector. Specifically, BB may encourage Banks and Financial Institutions to meet the excess demand for fund in MSME sector and continue regular supervision so that fund is utilized for productive purposes.

Survey on MSME Financial Inclusion Indicators, 2016

Chapter -1

1.0 Background

The topics on Micro, Small and Medium Enterprises (MSME's) access to finance have attracted increasing attention across the world among policy makers, researchers and development oriented agencies. Flourishing MSME has been considered as a tool for economic development, particularly in the areas of poverty reduction, employment generation, wealth creation and improving welfare and general standard of living in the developing and emerging countries. Reducing poverty remains a formidable challenge for Bangladesh. Although Bangladesh experienced stable growth rate of more than 6% on average during last five fiscal years, it is necessary to take steps to achieve the desired growth rate of above 7%. Acceleration of the growth rate, however, requires substantial increase in private investment. To fulfill the above objectives, as a central bank of Bangladesh, Bangladesh Bank focuses on enhancing access to financial services by the underserved or un-served millions of micro and small entrepreneurs so that the financial services are extended to broader participants in the economy.

To expedite the MSME sectors' growth globally, developing and emerging countries came to an agreement with a view to exchange views and information on financial inclusion among them and established an international organization named Alliance for Financial Inclusion (AFI) in 2008. The Maya Declaration Commitments in 2011 has been playing a catalytic role for promoting AFI activities. As a member country of AFI, Bangladesh has signed in Maya Declaration Commitments (MDCs) on 11 September, 2014 and has adopted 32 specific targets covering various policies relating to financial inclusion and financial education. Among the specific targets, 16 have already been achieved and some progresses have also been made in fulfilling other targets. In line with this, AFI has added new 24 targets for the year 2017. According to the MDCs, Bangladesh Bank (BB) has to attain 2 targets; 1) The target for achievement of 32% share of MSME and agriculture

financing to total financing by banking sector (joint commitment with MRA & MoF) has already been achieved; and 2) to conduct Survey on MSME Financial Inclusion Indicators by 2016 which has not been attained yet. In this backdrop, Research Department (RD) of Bangladesh Bank took initiatives and completed the above stated survey by a survey team jointly with SMESPD (SME & Special Programmes Department) and FID (Financial Inclusion Department) to assess impact of the indicators on MSME in Bangladesh.

The study finds that there is a huge gap between demand and supply of fund in MSME sector. Most of the MSME enterprises have current accounts with the banks. It is also found that almost all the respondents do not face any difficulties in getting MSME loan and the bank charges for MSME enterprises are at the moderate level. Similarly, it is also observed that the interest on loans and advances of the banks is quite high. Based on the above findings the study recommended some policy suggestions outlined at the end of the study.

1.1 Objectives of the Survey

The key objective of the survey is to make an overall assessment on the access, usage and quality of the financial services of MSME in Bangladesh. Broad objectives would include (i) advancing a shared understanding of how different dimensions of financial services contribute to the development of sustainable SMEs in Bangladesh; (ii) identifying policy frameworks that enable and enhance the socio-economic role of SMEs, with a specific but not exclusive focus on financial sector policy; and finally (iii) suggesting necessary policy options related to financial services in Bangladesh for achieving the commitments under the Maya Declaration.

1.2 Methodology

To attain the above objectives of the survey, the required information/data have been collected from primary sources. At the first stage, before starting the survey, the team requested 57 schedule banks operating in Bangladesh to provide information on MSME enterprises. The team asked information on at least 5 enterprises of three categories (Micro, Small and Medium) in 8 divisions of Bangladesh.

At the second stage, the primary data have been gathered through interview method using two sets of questionnaire; one for MSME institutions/entrepreneurs and other for bank branch incumbents. The team collected the data of around 800 respondents from which 680 of MSME entrepreneurs (8 divisions* 28 respondents *3 categories) including 3 categories: Micro, Small and Medium (MSME) and 120 Incumbents of the bank branches (8 divisions*15 branches) involved in MSME financing covering 8 divisions around the country.

1.3 Limitations of the Study

The major limitations of this survey are: i) it is confined only to the basis of FY2016 data. Actually, literature suggests that it is reasonable to measure the impact assessment on financial inclusion of a particular year compared with the base period indicators. Since, this survey used only the data of FY2016 which is insufficient to assess the changes of the status of MSME financial inclusion indicators ii) the time schedule for conducting the survey was also inadequate.

However, it is expected that this type of survey should be continued. Since a database of sample respondents has been created, it may help conduct for future survey related to financial inclusion indicators.

Chapter 2

Basic Statistics of MSME Financial Inclusion Indicators in Bangladesh¹

2.0 SME & Special Programmes Department

SME & Special Programmes Department of Bangladesh Bank is continuously striving towards the development of MSMEs in Bangladesh by improving the existing environment in the banking sector through regulatory and policy interventions. Among others, the following regulatory and policy interventions have increased the SMEs' access to finance:

- Target based lending activities by all Banks and NBFIs; and
- Special women entrepreneurship development strategies.

2.1 Target Based Lending

For the first time in the history of the financial sector of Bangladesh a target based SME lending program was initiated by Bangladesh Bank in 2010. In fact, the target based lending has two distinct dimensions, one is (a) annual credit disbursement target to SMEs and the other is (b) credit disbursement target to Small Enterprises (at least 40%). The beauty of this initiative is that the target is not imposed by the central bank; rather the banks and Non-bank Financial Institutions independently decide their targets; Bangladesh Bank simply monitors the achievement with predetermined monitoring indicators. The key indicators are:

- Achievement of target disbursements to SMEs
- Loans to the Small scale business sector
- Disbursements to women entrepreneurs
- Disbursements to manufacturing, service and trading concerns
- Non-Performing loan ratios
- Percentage of SME loans to total loans outstanding.

¹ Source: SMESPD, Bangladesh Bank.

2.2 Key Circulars and Guidelines of SME & Special programs

All scheduled Banks (57) and NBFIs (31) have to devise a yearly (January-December) target of credit disbursements to SMEs. The performance in achieving these targets is considered while licensing branches of each banks and NBFIs. Recently, Bangladesh Bank also puts significant weights on the performance of targets and achievements (including women entrepreneurs' financing) in determining the CAMELS rating of Banks. The success of this intervention did not get proper attention in a single day. The SME & Special Programmes department (SMESPD) conducted several meetings with all Banks and NBFIs and motivated them to take SME business as a separate business segment by promoting SME banking through high level policy dialogue and seminars with CEOs, Boards and training programs for bank officials to showcase how SME Banking can be made a profitable business, on one hand, and on the other through providing liquidity and funding support to the accredited Banks and NBFIs at the refinance and pre-finance facilities at bank rate (currently 5%). With the efforts and interventions of SMESPD of Bangladesh Bank, all Banks and NBFIs have opened a separate department for dealing with SMEs. All Banks and NBFIs now consider the SME segment as a profitable business. Moreover, a number of banks and NBFIs who have specialization in SME banking (like BRAC Bank Ltd and IDLC Finance Ltd) have augmented excellent services.

Besides these supply side interventions, Bangladesh Bank came forward to accommodate the demand driven endeavors with different organizations, chambers and stakeholders to boost entrepreneurship. With the help of all Banks and NBFIs and other SME organizations, Bangladesh Bank has also been organizing seminars, workshops, training and skill development programs for SME entrepreneurs. Most significantly, Bangladesh Bank also joined hands with different associations (e.g., Dhaka Chamber of Commerce and Industries (DCCI) and Institute of Diploma Engineers Bangladesh (IDEB)) to promote entrepreneurship and to help create new entrepreneurs.

With the help of JICA, IFC and ADB, Bangladesh Bank has trained more than 1000 entrepreneurs countrywide. Recently, Bangladesh Bank has also signed a project agreement with ADB to provide market oriented training to 10,000 youths over three years.

2.3 Present Status of MSME Financing

Financial inclusion is measured in three dimensions: (i) access to financial services; (ii) usage of financial services; and (iii) the quality of the products and the service delivery. The table below shows achievement of disbursements to SMEs against targets.

(In Crore BDT)

Tenure	Target	Subsectors			Total	Women Entrepreneur	Achievement against target
		Trading	Manufacturing	Service			
2010	38,858.12	35,040.53	15,147.72	3,355.68	53,543.93	1804.98	138%
2011	56,940.13	34,382.64	15,805.95	3,530.85	53,719.44	2048.45	95%
2012	59,012.78	44,225.19	21,897.33	3,630.90	69,753.42	2244.01	118%
2013	74,186.87	56,703.72	24,016.64	4,602.89	85,323.25	3,346.55	115%
2014	89,030.94	62,767.18	30,246.20	7,896.77	100,910.15	3,938.75	113%
2015	104,586.49	73,551.78	30,462.02	11,856.68	115,870.48	4,226.99	112%
2016	113,503.43	90,547.57	35,168.63	16,219.19	141,935.39	5,345.66	125%
2017	133,853.59	96,934.79	42,334.87	22,507.66	161,777.32	4,772.99	121%

Source: SME & Special Programmes Department, Bangladesh Bank

It can be seen from the above table that as the demand is escalating day by day, the target has also been set out at increasing rate in this sector, As a result, the achievement of the SME loan has been spread out by 21 percent for the year of 2017 compared to previous year. Out of the total disbursements in 2017, approximately 72.4 percent has been disbursed in the trading sector, following 31.6 percent in the manufacturing sector and 16.8 percent in the service sector. Women entrepreneurs have been supported with loans amounting to Tk. 4,772.99 crores for the year of 2017 to support their self planned projects, enterprises etc.

2.4 More Policy Initiatives towards SMEs Access to Finance

- a) Under low cost funding support to SMEs, especially women entrepreneurs, 55860 entrepreneurs were refinanced on Tk.70.05 billion through refinancing windows during the last five years;
- b) Cottage and Micro industries have been included under SME financing.
- c) Special focus to women entrepreneurs:
 - I. Low cost funding support (refinancing at bank rate+4%)
 - II. Allocating at least 15% of the total refinance funds for women entrepreneurs.
- d) Under financial inclusion initiative, handicapped and blind entrepreneurs as well as entrepreneurs who are engaged with creative writings and publishing of such books were also included in the refinancing window maintained by BB.
- e) A refinance fund amounting to Tk.1.00 billion was created for providing support to the new entrepreneurs.
- f) Under ADB funded Skill for Employment Investment Program, an initiative was undertaken to create more than 10,000 entrepreneurs by next 3 years. As a result, market oriented training and financial education have been provided to 10,200 youths.

2.5 Women Entrepreneur Financing and Development

While around half of the total population is women in Bangladesh, leaving them behind, as a nation we cannot stand upright economically or socially. But in general, women face many challenges in accessing financial services from formal financial institutions. In this backdrop, one of the priority areas for Bangladesh Bank is to achieve inclusive economic growth through promoting women entrepreneurship. It is considered as a tool for broadening financial inclusion, job creation and women's economic emancipation.

A number of policy initiatives in favor of women entrepreneurs have been taken so far with a view to enhancing inclusiveness by addressing the constraints causing the lack of access to finance, such as inadequate business knowledge and imperfect marketing

policies. Some of the important policy initiatives that facilitate greater access to finance for women entrepreneurs are-

- a. Bangladesh Bank is managing several refinance funds for entrepreneurs. Fifteen percent of the total refinance fund for the SME sector has been allocated to women at a capped interest rate of the bank rate+4% (currently 9 percent).
- b. Provision for extending collateral free loans to women entrepreneurs up to an amount of BDT 2.5 million.
- c. Allowing group based lending so that micro level women entrepreneurs have wider access to the formal financial system.

At the outset, Banks and NBFIs were not much interested to finance women entrepreneurs. One of the reasons behind their reluctance was that women entrepreneurs lack the ability to provide collateral. Women entrepreneurs also lack the knowledge of business. In this regard Bangladesh Bank emphasized motivational measures for both bankers and prospective women entrepreneurs. To make bankers engage with women entrepreneurs in financing, Bangladesh Bank used “moral persuasion” at meetings with bankers. While providing refinancing to banks and NBFIs, priority was given to the cases of women entrepreneurs. Thus, to create demand for women entrepreneurs’ credit, Bangladesh Bank has taken awareness building campaign through road show, encouraging women’s chambers and also providing training.

The private sector credit by the banking system in Bangladesh is still concentrated towards large enterprises or corporate sectors. With the result oriented initiatives of Bangladesh Bank, especially the target based lending and women enterprise development strategy, SMEs access to formal finance have been increased. In the coming days, Bangladesh Bank will put in place some more result driven SME friendly initiatives which may generate impetus to broaden the areas of financial inclusion.

Chapter 3

Analysis of the Survey Statistics

3.0 About the Survey Sample

The team collected primary data from field level, from 652 respondents including MSME entrepreneurs and CEOs of different enterprises. They were interviewed by the central bank officials of the survey. The survey covered all the 8 divisions of Bangladesh.

From a database of 6840 MSME enterprises collecting from all the scheduled banks, the sample are designed randomly which split out for all 8 divisions of Bangladesh. Division wise sampling is shown in table 1 below:

Table 1: Division Wise Sample Distribution

Division	Frequency	Percent
Dhaka	88	13
Chittagong	83	13
Rajshahi	91	14
Rangpur	78	12
Barisal	72	11
Sylhet	74	11
Khulna	95	15
Mymensingh	71	11
Total	652	100

Bank-wise sample distribution is given below in table 2. It may be noted that sample has been chosen based on the information and data availability of the banks as we targeted to cover all 8 divisions and 3 categories of enterprises-Micro, Small and Medium. Therefore, it is seen in the table that some banks have higher frequency while some have low frequency.

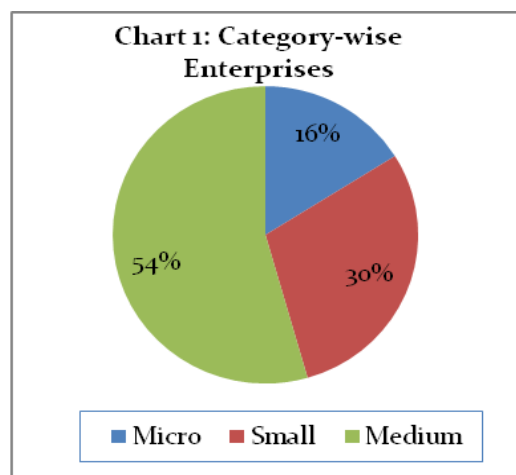
Table 2: Bank-Wise Sample Distribution

Sl	Name of the Banks	Frequency
1	Dhaka Bank	48
2	Al Arafah Islami Bank	53
3	Bank Al Falah	7
4	Brac Bank	39
5	The City Bank	44
6	Commercial Bank of Ceylon PLC	11
7	Eastern Bank	51
8	First Security Islami Bank	56
9	IFIC Bank	85
10	Islami Bank Bangladesh	66
11	Jamuna Bank	63
12	Mercantile Bank	34
13	Meghna Bank	22
14	Modhumoti Bank	4
15	Mutual Trust Bank	31
16	National Bank of Pakistan	2
17	Union Bank	13
18	United Commercial Bank	23

Totals**652**

3.1 Enterprise Category

The study considers three categories-Micro, Small and Medium Enterprise. Majority of the respondents (54 percent) are medium enterprise followed by small (30 percent) and micro entrepreneurs (16 percent). It is observed from the survey that banks intend to finance more to medium scale enterprises as they are less riskier (above 1 million Tk.) due to adequate collateral.



3.2 Education Level and Experiences

Around 20 percent of the sample respondents have completed post graduation degree whereas about 23 percent completed graduation degree. Only 37 percent of the total sample respondents have degree of education bellow Higher Secondary level. On an average, the respondents have 16 years experience in their respective field. Respondents having higher degree of education imply that the educated unemployed people are being self-employed as well as creating more opportunity for the others in this sector. As a result, this sector contributed a lot to help attain higher GDP growth of the country. Besides, educated entrepreneurs are skillfully managing the enterprises which have positively engineered the overall condition of MSME's access to formal financing.

3.3 Pattern of the Enterprises

Around 91 percent of the sample enterprises are based on sole proprietorship whereas 9 percent enterprises run by the partnership. One-half of the enterprises are established on their own land and 40 percent are rented and 40 percent are both rented and on own land. The survey also finds that around 67 percent of enterprises supply their output/product to large enterprises. The sample enterprises started their business with an average initial capital amounting to tk. 5 million. Around 67 percent of the businesses maintain their own regular balance sheet and only 32 percent audited the balance sheet. From the above findings, it may be concluded that banks show keen to approve loans for

MSME enterprises. It is seen that, 63 percent of the MSME enterprises are run for trading business while 29 percent for manufacturing and 8 percent for service. The MSME sectors in Bangladesh are largely based on trading. In this regard, policy makers may take some necessary steps to encourage financial intuitions to give priority to manufacturing sectors compared to business sector for helping accelerate robust economic growth.

As regards the intensity of the enterprises, it is found that around 63 percent of the enterprises are capital intensive whereas 37 percent are labor intensive. On an average, the enterprises initially started their business with the manpower of 14 persons but at present on an average 44 manpower are working in their business. However, out of them 52 percent are skilled and 41 percent are unskilled. So, it implies that MSME financing should create more opportunity for skilled unemployed youths in Bangladesh.

Chapter 4

Analysis of the Survey Result: Demand Side Responses

4.0 Excess demand for MSME loans

The survey finds that on an average the sample respondents demanded for around Tk.358128.00 as loan while they received only Tk.277914 recorded in 2016. Therefore, about 77 percent of the demand has been met up by the banks on average. It may be remarked that there is a gap between demand and supply of available fund in MSME sector. On the other hand, Banks as the supplier are not fully able to supply that adequate amount of fund demanded by the MSME entrepreneurs. It may be recommended that the MSME entrepreneurs should be provided with larger amount of loans from the respective bank branches for operating their businesses.

4.1 MSME's Access to Financial Services

The study found that around 98 percent of the MSME enterprises have current account with banks in the name of their business whereas only 2 percent have no account with formal institutions. Similarly, a bulk of the enterprises (80 percent) have savings account in the name of their businesses. On the other hand, only 20 percent of the enterprises reported that they do not have any kind of savings account in the name of their businesses. Therefore, the results support that as a whole, MSME business have sufficient access to financial services.

A large portion of the entrepreneurs (about 55 percent) opined that they do not use either credit or debit card. On the other hand, 40 percent of the respondents use credit card and only 5 percent use both debit and credit card for their business purposes. Similarly, around 59 percent of the respondents reported that they do not use mobile financial services for their business transactions whereas 41 percent use mobile financial services for the business purposes. However, it may be mentioned that MSME business transaction are mainly depended on cash of which largely executed by banks as well. On

the other hand, digital cards and mobile financial services are mainly used by consumers rather than business.

4.2 Barriers' for MSME's Access to Finance

In the survey, the respondents interviewed are mainly the enterprise owner/manager/CEO. The respondent reported that on an average they spend Tk.44 or half of USD 1 approximately, to arrive at their respective bank branches to avail financial services. A large portion of the respondents, 89 percent reported that opening a bank account for the business purposes is not so difficult whereas only 11 percent says it is difficult to open a bank account. They reported that the difficulty arises mainly from the requirements of identification documents. In general, to open a bank account or for availing loan, 5/6 identification documents are required. In the context of Bangladesh identification documents are national ID, TIN certificates, Trading license and birth certificate etc.

4.3 Cost of Availing Formal Financial Services

The Survey team asked the respondents about fee/charges on different financial services i.e. annual fee, annual excise duty etc. A bulk of the respondents (61 percent) reported that overall fee/charges for MSME enterprises are on the moderate level. On the other hand, only 2 percent of them reported those banks charges are very high and rest of them feels those charges are low.

Around 61 percent of the respondents realized that the interest against loans and advances are high whereas 35 percent of them reported that it is moderate. On the other hand, only 4 percent of them feel the interest rate is low.

4.4 Women led MSME's Access to Finance

The study asked both male and female sample entrepreneurs about the difficulties of women led enterprise in getting MSME loan. Around 45 percent respondents do not feel that women face any difficulties whereas about 32 percent of them argue that women

face challenges in getting MSME loans. On the other hand, around 23 percent of the respondents argue that do not have any information about this.

4.5 Who reach to whom? Bank or Entrepreneurs

The team asked respondents whether bank officials come with financial services to respondents or they themselves go to the banks. Around 37 percent respondents reported that bank official related MSME financing came to entrepreneurs to advertise their products and facility. On the other hand, around 63 percent of the respondents report that they went to bank themselves to avail financial products and services. The study also finds that about 96 percent respondents apply for loan by themselves whereas only 4 percent of them get apply by others on behalf of them.

4.6 Difficulties in Getting Loan

About 97 percent of the sample respondents reported that they do not face any difficulties in getting MSME loan whereas only 2 percent of them reported that they had trouble in getting loan. They reported that, on an average, 26 days required to get the loan sanctioned. It may be noted that the time required for sanctioning MSME loans is quite high due mainly to processing and disposals from the higher authority of the concerned banks. Besides, sometimes there might be shortage of proper documentations of the entrepreneurs. In addition, loan especially for the medium scale enterprises took more time since it has to be inspected by the bank's inspection team. However, BB as the regulatory authority may advice the banks to minimize the time for sanction.

4.7 Requirement of Collateral or Guarantor

Around 80 percent of the respondents reported that collateral is must for taking MSME loan whereas 20 percent of them reported that collateral is not a requirement for MSME loan. Report also finds that 74 percent respondents required a guarantor for taking loan while 26 percent did not require any guarantor.

4.8 MSME Financing from Other Sources

Around 94 percent of the respondents reported that they also receive loan from informal sources whereas only 6 percent of them told that they do not receive loan from any other sources except bank. About 99 percent of the MSME enterprises told that they do not receive any grant from other sources and only 1 percent receives various type of fund as grant.

4.9 Quality of Bank Services to Entrepreneurs

Almost all the respondents (98 percent) reported that bank services are satisfactory while merely 2 percent are not satisfied with overall bank services. Around 96 percent of the respondents reported that they did not feel any type of maltreatment by the bank officers. On the other hand, about 3 percent of the respondents reported for maltreatments. Therefore, BB may advice the banks to take punitive measures for those officials responsible for that.

4.10 Awareness on the Terms and Conditions of the Loans

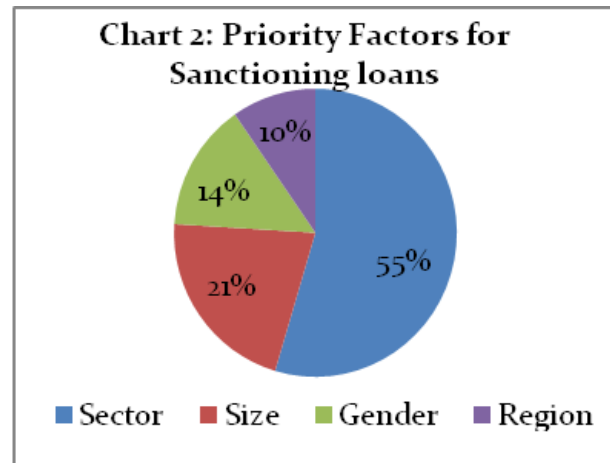
Approximately 96 percent of the respondents reported that they are aware of the terms and conditions of the loans while 4 percent of them reported that they are not fully aware of the terms and conditions of banks. However, BB has already issued a circular to all banks and financial institutions to introduce their loan applications forms along with their terms and conditions in Bengali. It is hoped that this move will help to bring the congenial banker-customer relationship.

Chapter 5

Analysis of the Survey Results: Supply Side Responses

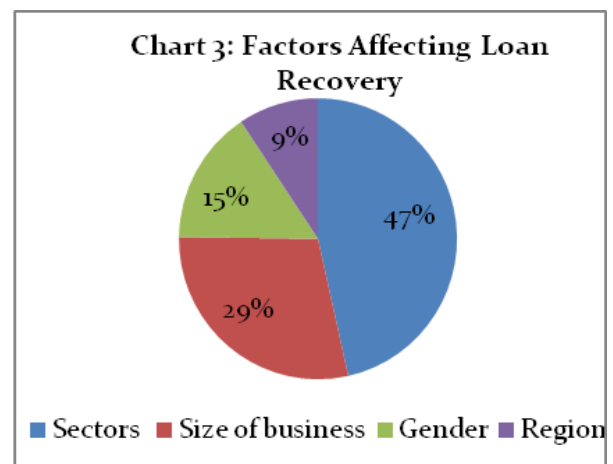
5.0 Priority Factors in MSME Loan Disbursement

The study finds that the sanctioned MSME loans by banks to those entrepreneurs who are considered competitive in the market and quite able to absorb different types of risks. The study finds that around 55 percent of the MSME loan is disbursed on the basis of sector, 14 percent on the basis of gender, around 10 percent on region basis whereas 21 percent of the loan is considered as per size of the industry (Chart 2).



5.1 Factors that Affect MSME Loan Recovery

The study finds that among the factors that affect MSME loan recovery, sectors of investment is on the first position followed by size of the business, gender and region of the entrepreneurs. This result is consistent with the previous finding- supporting the priority factors of loans (Chart 3).



5.2 Projection of MSME Loan Portfolio

The study finds that on an average, 94 percent bankers expected that MSME loan portfolio should be expanded in upcoming days as there is a gap between demand and supply due to higher growth in MSME Enterprises.

5.3 Minimum Balance for Clients to Open a Basic Deposit Account

The survey revealed that 42 percent of the respondents reported that Tk. 1000 is required to open a bank account while around 17 percent of them said Tk. 500 is required to open a bank account.

5.4 Collateral Requirement for MSME Loans

From the supply side responses the study finds that around 84 percent MSME loans is backed by collateral. On the other hand, 16 percent of the MSME loans are collateral free. This result supports the demand side responses. It may be noted that loan limit up to Tk. 2.5 million for female entrepreneurs and 1 million in general are collateral free.

5.5 Unsuccessful Loan Applications

Several reasons are observed regarding unsuccessful applications for MSME loans. The main reasons are: a) lapse in mortgage documents; b) insufficient collateral; c) classified client of other bank's; d) manipulation of trade license and other documents; e) probability of fund diversion; f) shortfall of required stocked materials; g) unwillingness to provide guarantee; h) poor business transaction; i) lack of demand of the product to be produced because of saturation level; j) no formal banking relationship; k) possibility of over financing; l) lack of minimum experience of business; m) lack of feasibility study of business/project; n) adverse leverage ratio; o) low profitability; p) lack of proper assessment of fund requirement; q) mismatch of sales and account turnover; and r) absence of second line of business etc.

5.6 Formation of Inspection Team to Examine MSME Loans

Formation of inspection team in each bank branches is important to properly monitor the quality of the loans sanctioned to ensure low default rate and proper usage of fund. The survey finds that approximately 85 percent of the bank branches reported that they have inspection team to examine the information on MSME activities whereas only 15 percent of them reported that they have no inspection team yet to do that. However, BB has given emphasis not to divert fund to nonproductive sectors which may generate shortage of sufficient fund for the real entrepreneurs. Accordingly, BB has issued various circulars and guidelines in this regard time to time.

5.7 Separate Service Help Desk for MSME Women Entrepreneurs

The survey finds that almost all the bank branches have separate service help desk for women entrepreneurs to encourage and motivate them.

5.8 SME Advertisements

Approximately 66 percent of the respondents reported that SME related advertisements are adopted in their branches whereas around 34 percent of them reported that SME related advertisements are not adopted in their branches.

Chapter 6

Conclusion and Policy Recommendations

The MSME finance has been given utmost priority with a view to accelerate inclusive economic growth of the country. Recently, Bangladesh has graduated to developing country from the status of the least developed country. Since it has demographic dividend with a large young workforce and the high potentiality, it should come forward to create more spaces for employments. So, it is high time to design a roadmap to achieve a higher growth with the help of high attribution of the MSME financing in Bangladesh. It may be mentioned that MSME is the engine of development which can largely contribute to attain over 7 percent GDP growth through engaging its large unemployed and energetic youths to utilize the demographic dividend fully.

The result of the survey on MSME Financial Inclusion Indicators, 2016 reveals that approximately 43 percent entrepreneurs having graduate or post graduate degrees contributed a lot. That means, as these people are highly educated they could easily get engaged with the formal job sectors to enhance the possibility for others. With the expansion of this financial inclusion of MSME, there will be a greater scope of work opportunity, and so greater employment to absorb the excessive unemployment pool resulting in higher economic growth.

The survey suggests that due to lack of adequate knowledge about the mutual benefit from partnership business, the culture has not developed yet in this country. Only 8.60 percent of all the surveyed enterprises belong to the partnership category in terms of ownership. On the other hand, it is also true that formal audited balance sheet is needed for a business/enterprise to be a partnership category. The survey reveals that most of the enterprises maintain their unaudited balance sheets at their own which means that they run their businesses in sole proprietary form.

The survey also finds that minimum requirements of documentation, lower amount of mandatory initial deposit to open a bank account, moderate bank charges etc. have inspired people to come forward to align with the network of formal financial system.

Following the commitment in Maya Declaration, many initiatives have already been taken by Bangladesh Bank. Separate SME desk and expertise manpower for MSME loan related activities have been made mandatory for all banks and financial institutions. Overall, with proper guidance and regulations of Bangladesh Bank, Banks and Financial Institutions operating in the country are playing a vital role in promoting financial inclusion through their enhanced MSME supporting activities.

Some policy recommendations for MSME sector of Bangladesh

1. Since money market is currently suffering from significant liquidity crisis, which has made harder for financial institutions to acquire low cost fund from the market and offer it to the MSME borrowers at lower interest rate, BB may earmark a separate fund for MSMEs which may promote high employment with minimum business expenditures.
2. In order to assist MSMEs to survive in the competitive market conditions, banks and financial institutions may reduce the interest rate as low as possible.
3. In order to provide more collateral free loan in MSME businesses, financial institutions should avoid taking excessive security which is one of the most significant barriers to obtain MSME financing.
4. To ensure a “Partnership based approach” between FIs and SME businesses, monitoring may be intensified for providing sufficient working capital. At the same time, a database of existing SME businesses may be created to reduce the asymmetric information and genuine sanction of loan.
5. Unlike other countries, Bangladesh may devise collateral substitute lending policies such as lending based on social security, lending on current cash flow etc. Moreover, financial institutions may also increase their continuous monitoring on SME businesses,

which will allow them to be less dependent on amount of collateral while making lending decisions.

6. BB may strengthen its own surveillance to restrain the MSME fund diversion to non-productive sectors. In this regard, BB may issue various stringent circulars and guidelines.

7. The time required for sanctioning MSME loans is quite high due mainly to processing and disposals from the higher authority of the concerned banks. Besides, sometimes there might be shortage of proper documentations from the entrepreneurs' side. To get rid of the problem banks may delegate loan sanctioning power to some extent to its branches especially for the medium scale enterprises. BB as the regulatory authority may instruct the banks to reduce the time for sanctioning loans.

8. Banks may arrange various training programs for SME entrepreneurs, especially in rural areas to increase their understanding of financial knowledge and managerial capacity so that these entrepreneurs become able to understand loan processing procedures, establish proper accounting system and conduct a cost benefit analysis of their businesses.

9. Contribution from various donors and NGOs is a crucial factor to improve the SME loan financing environment in Bangladesh. Therefore, government may consider including this issue for discussion with the donor's countries and NGOs to involve them more in MSME sector.

10. Government may also give emphasis on ensuring the co-operation and collaboration among different ministries to work in line with government's policy to improve the MSME financing.

Questionnaire Set-A

[For the sample borrowing Micro, Small and Medium enterprises owner's]

Reference bank	Account no.			
Branch	District			
Survey date	Division			
Enumerator's Name	Enterprise Category:	M	S	Me

1. Name of the Entrepreneur:
2. Education level: 1. Primary 2. S.S.C 3. H.S.C 4. Graduate 5. Post graduate/above
3. Name of the Business:
4. Experience in the relevant business (years):
5. Address of the Business:
6. Business Phone no:
7. Ownership: 1. Sole 2. Partnership
8. Please specify the sector of your MSME business (According to BB's Sector/Cluster list):
9. Categories of the sector: 1. Manufacturing 2. Trading 3. Service
10. Capital Structure:
 - A) Initial capital amount: _____ Million Taka
 - B) Current capital amount: _____ Million Taka
11. Is the enterprise a sister concern of any of group of companies? 1. Yes 2. No
12. Does the enterprise work as a supplier to a large enterprise?
 1. Yes 2. No
13. Who are your customers or clients?

1. Private Individuals	2. Other small business	3. Other larger business	4. Government	5. NGO's/ donor agency	6. others (specify)
------------------------	-------------------------	--------------------------	---------------	------------------------	---------------------
14. a) Does the enterprise maintain a balance sheet? 1. Yes 2. No b) If yes, is it audited?
 1. Yes 2. No
15. Is your enterprise established on your own land? 1. Yes 2. No 3. own & rent
16. Productivity of the enterprise: 1. Labour intensive 2. Capital intensive
17. Initial manpower including yourself:
18. Current manpower including yourself:
19. Number of labourers: 1.Male....., 2.Female....., 3.Children....., 4.Disabled....

20. Is the employed manpower skilled? 1. Skilled 2. Semi-skilled
3. unskilled

21. Questions related to financial inclusion:

- a) What distance do you travel to the reference bank branch (In Km):
- b) Average cost of traveling to the nearest access point (public transit fee or gas cost):
- c) Do you have any current account in the name of your enterprise?
1. Yes 2. No
- d) Do you have any savings account in the name of your enterprise?
1. Yes 2. No
- e) Is it difficult to open a bank account?
1. Yes 2. No 3. Do not know
- f) Number of identification documents required to open a basic bank account:
- g) The cost of opening a basic bank deposit account:
- h) Do you have any credit card or debit card?
1. Yes 2. No 3. Both
- i) Do you use Mobile Financial Services?
1. Yes 2. No
- j) What do you think about the Bank charges?
1. Low 2. Moderate 3. High 4. Very High
- k) What do you think about the interest rate you realize?
1. Low 2. Moderate 3. High 4. Very High
- l) Getting loan is difficult:
1. Agree 2. Disagree 3. Do not know
- m) Have you received any grant (from Govt./NGO) beside the loans for establishing enterprise?
1. Yes 2. No
- n) Banks provide a good service:
1. Agree 2. Disagree 3. Do not know
- o) Women are less likely to get loan:
1. Agree 2. Disagree 3. Do not know
- p) Do you feel any mistreated by the bank employees 1. Agree 2. Disagree 3. Disagree to disclose

22. Formal loan related information:

Bank/Financial institution	Tenure of loan	Amount of loan you demanded	Amount of loan you received	Outstanding loan	Rate of interest	Year
						2016
						2017

23. Have you taken loans being aware of the terms and condition? 1. Yes 2. No
24. How did you get loans?
1. Went to bank 2. Came bank officials to you
25. Have you applied for loan by yourself? 1. Yes 2. No
26. Did you face any problem (bribe, delay or mental risk etc.) in getting loans from concerned bank/financial institution? 1. Yes 2. No
27. How long did it take to get loans after application?
.....Day
28. Have you kept any collateral against your current loans? 1. Yes 2. No If yes, describe that:
29. Was there any guarantor to get the loans? 1. Yes 2. No
30. a) Did your enterprise take any loan from informal source? 1. Yes 2. No, If yes
b) Rate of interest..... %
31. Information on changes of overall situation of the enterprise after receiving loan in 2017:

To be filled by the team of Bangladesh Bank

1. Overall performance of the enterprise	Very Good	Good	marginal	Not good
2. Ability of the entrepreneur to respond to the questionnaire	Very Good	Good	satisfactory	Unclear
3. Comments of the Entrepreneur:				
Signature of the Enumerator				

Questionnaire Set-B

[For Officer in Charge of MSME Financing of Selected Banks Branches]

Branch Address:

Division:

1. Name and Designation of the Incumbent:
2. Percentage of total manpower involved in MSME loan related activities:
3. A) Is there any priority factor in disbursement of loan regarding sector, size, region or gender?
 1. Yes 2. NoB) Mention the factor:
 1. Sector 2. Size 3. Region 4. Gender 5. Others
4. A) Is there any difference in loan recovery in case of sector, size, region or gender?
 1. Yes 2. NoB) Mention the factor
 1. Sector 2. Size 3. Region 4. Gender 5. Others
4. Share of SME loans and advances in your branch:
 - 1).....% in total loans and advances 2).....% in profits in total profits
5. Do you think that any further expansion of SME credit of your branch is necessary in near future?
6. In general, minimum balance for clients to open a basic deposit account:
Tk.....
7. A) Is any collateral required for MSME loans from your banks?
 - B) If Yes, Please specify:
8. Percentage of entrepreneurs having no valid identification documents required to open a basic account:.....
9. Current status of MSME loans:

(Please use separate annexure if necessary and mail the soft copy of the table at sanaullah.taluder@bb.org.bd or md.nurealom@bb.org.bd)

(In Taka)

Description	Sector												Total 1+2+3
	1. Micro				2. Small				3. Medium				
Disbursement	Manuf.	Trading	Service	Sub Total	Manuf.	Trading	Service	Sub Total	Manuf.	Trading	Service	Sub Total	
Recovery													
Overdue													
Classified													
Outstanding													
Number of Enterprises													
Women													

10. What is your main procedure to select entrepreneurs for SME loans?
 1. Incoming entrepreneurs at the branch
 2. Searching entrepreneurs at field level
11. Generally, how many days does it take between application of and disbursement of loans at your branch?
12. What is the number of applications for SME loans and the number of loans sanctioned during 2016?
 - A) Number of applications.....
 - B) Number of loans sanctioned.....
13. What are the amount asked as MSME loans and the amount of loans disbursed in 2016?
 - A) Amount Asked Tk).....
 - B) Amount Disbursed Tk).....
14. What is the inadequacy observed in the unsuccessful applications for loans?

1	4
2	5
3	6
15. Do you have any inspection team to examine the information regarding disbursement and recovery of SME loans? 1. Yes 2. No
16. When does any inspection team of Bangladesh Bank last visit your branch in this regard?

.....
17. What kinds of facilities/incentives are available for promoting women entrepreneurs?
Specify.....

18. Does your institution have any separate service help desk for women entrepreneurs to facilitate disbursement of SME loans? 1. Yes 2. No

19. Have women entrepreneurs received any group loans? 1. Yes 2. No

20. Do your branches have any involvement with the Chambers/Associations for SME loans?

1. Yes 2. No

21. Does your branch adopt any kind of SME related advertisements?

1. Yes 2. No

22. Please describe your overall evaluation (indicating facilities, problems, economic importance etc.) of SME loan activities. (Please use separate annexure if necessary and mail the soft copy of the table at sanaullah.taluder@bb.org.bd or md.nurealom@bb.org.bd)

Signature and Seal of the incumbent

Date:

Signature and Seal of Branch Manager

Date