

# Project Resource

*Project resources are materials which were originally produced during support from the Business Innovation Facility team to a specific inclusive business project. They include inputs provided as part of technical assistance and summaries of findings and outputs. They are adapted for wider use so that other practitioners can also make use of the material.*



## Financing options for inclusive business in Bangladesh

### Summary report

*What is this resource?*

*This reports describes the different types of finance that are available for small and medium-sized enterprises (SMEs) in Bangladesh. Ranging from bank loans and equity, to non-bank financing and micro-finance, it explains who provides what.*

*It is a summary of an in-depth report on the financial landscape for SMEs and inclusive businesses prepared by Barclay O'Brien of Challenges Consulting, for a Business Innovation Facility project.*

*Why is it interesting?*

*As far as we know, there is no comparable document that summarises the different options for SMEs in Bangladesh, including both debt and equity.*

*Who is it for?*

*This summary will be useful for entrepreneurs, to help them consider and understand their options.*

*Policy-makers and business support organisations will find a useful overview here of the types of finance, but will also find more useful detail about the context, policy issues, challenges, finance providers and their terms in the main report, available at:*

*<http://bit.ly/TLgjlj>.*



## List of acronyms

ADB – Asian Development Bank

BB – Bank of Bangladesh

DFI – Development Finance Institutions

GDP – gross domestic product

GIIN – Global Impact Investing Network

IBBL – Islami Bank Bangladesh Limited

IFC – International Finance Corporation

MFI – Microfinance institutions

MTB – Mutual Trust Bank

NBFI – Non Bank Financial Institutions

OPIC – Overseas Private Investment Corporation

PE – private equity

SEAF – Small Enterprise Assistance Funds

SMEs – small and medium-sized enterprises

ULC – United Leasing Corporation

VC – venture capital

## Access to finance for inclusive business in Bangladesh

### Focus on Inclusive Business and Small and Medium Enterprise

This report was commissioned to help source finance for the Bangladeshi ‘inclusive business’ sector. These are businesses that combine social impact with commercial return, and several are supported by the Business Innovation Facility. In Bangladesh, most businesses that seek to be inclusive are small or medium in size. Therefore, when seeking finance, it is finance aimed at SMEs that is most appropriate. This report therefore focuses on SME finance, although it includes coverage of ‘impact investment’ which is more specifically targeted at businesses that have explicit social and environmental objectives.

### The context of SME finance: priorities and targets in Bangladesh

The economic importance of SMEs is recognised in Bangladesh, and hence there are various policies and financial measures that afford them priority. SMEs are seen as critical to increase economic output, broaden employment opportunities and help improve wealth distribution. The importance of SME financing is clearly acknowledged by the authorities. Progress has been made, but there are also some serious on-going constraints.

By some measures, Bangladesh compares favourably in South Asia but it is behind East Asia and the Pacific. A World Bank study examined access to finance specifically for SMEs and ranked Bangladesh ahead of other South Asian countries, in terms of SME lending as a percentage of GDP, and as a percentage of total lending.

In 2009, Bank of Bangladesh (BB) initiated SME lending targets to boost formal credit for SMEs:

- The initial BB target for all banks and financial institutions was Tk240bn (US\$3bn) in SME loans for 2010. This was achieved.
- the target for 2012 is nearly two and half times the original at Tk590bn (US\$7.37bn).
- BB has also initiated subsidised programmes with specific foci, such as agriculture and women - with a target of Tk138bn (US\$1.725bn) for the former in the financial year to 30 June 2012; and Tk10bn (US\$125m) for women entrepreneurs in the up-coming year.

In this context, in which SME finance receives some priority and attention from a variety of initiatives, this report outlines current financial options in more detail.

## Providers of finance

### 1. Banks

There are 47 scheduled banks in Bangladesh:

- State owned commercial banks (4)
- Specialised banks (4)
- Private commercial banks 30 (of which 7 are Islami Shariah based)
- Foreign commercial banks (9)

As of 31 March 2012, the total outstanding SME loans from all banks stood at Tk3,851bn (US\$48bn). This represents 22 per cent of their total loans and advances - a 20 per cent year-on-year increase, led by the private commercial banks.

The largest lender to SMEs by far is Islami Bank Bangladesh Limited (IBBL), with 83,000 SME clients, plus 11,000 women entrepreneur clients. The second largest is BRAC Bank. Others with an SME focus include Sonali Bank, Eastern Bank and Mutual Trust Bank (MTB).

### 2. NBFIs

There are 31 Non Bank Financial Institutions (NBFIs) operating in Bangladesh (NBFIs are organisations that offer financial services, such as insurance or loans, but are not licensed and regulated as banks). With relatively limited funding bases, they are modest players holding SME assets of just Tk22bn (\$271m) as at 31 March 2012.

NBFIs can provide syndicated financing, bridge financing, lease financing, securitisations and private placements of equity. Lease financing has been shown in other countries to be an effective way to overcome issues for SMEs, such as sufficient collateral, since the asset title remains with the lender. The largest participant in this market by far is United Leasing Corporation (ULC) partnered with IFC.

### 3. Microfinance Institutions (MFIs)

The Bangladesh microfinance sector is mature and its assets constituted around 3 per cent of GDP in 2011. There are over 1,000 NGO-MFIs in Bangladesh of which 599 MFIs were licensed as of October 2011. The total outstanding loans (from licensed MFIs only) increased by 20 per cent from Tk145bn (US\$1.812bn) to Tk174bn (US\$2.175bn) over the year to June 2011 - disbursed among a total of 20.7 million poor people.

### 4. Equity Investors

The transfer of equity to outside investors is not a concept widely accepted and/or understood in Bangladesh. But there are some avenues available to SMEs looking to finance their operations via equity rather than, or together with, debt. Examples of the most suitable are:

- SEAF: [www.seaf.com](http://www.seaf.com)
- Tindercapital: [www.tindercapital.com](http://www.tindercapital.com)
- Frontier Private Equity Fund, Danida: [www.um.dk](http://www.um.dk)
- Leopard Capital: [www.leopardasia.com](http://www.leopardasia.com)
- IFC's, SME Ventures:  
[http://ifcext.ifc.org/ifcext/southasia.nsf/Content/Bangladesh\\_Investments](http://ifcext.ifc.org/ifcext/southasia.nsf/Content/Bangladesh_Investments)

There are also many Impact Investment Funds active in the region, in two main categories:

- (i) Development Finance Institutions (DFI's), and
- (ii) Private equity/venture capital funds.

DFI's are Government-controlled institutions that invest in sustainable private sector projects and are either multilateral institutions such as the International Finance Corporation or the Asia Development Bank (ADB), or bilateral institutions such as CDC (UK), OPIC (USA) or FMO (Netherlands).

Outside Bangladesh there are hundreds of private equity (PE) and venture capital (VC) funds based internationally that invest in inclusive businesses. They aim to achieve a financial return on their investments together with social and environmental benefits for the communities in which they are based. Examples of some of the Private Equity/Venture Capital Funds which are active in this field in the South Asia region include :

- Actis: [www.act.is](http://www.act.is)
- Acumen Fund: [www.acumenfund.org](http://www.acumenfund.org)
- E+Co: [www.eandco.net](http://www.eandco.net)
- Grassroots Business Fund: [www.gbfund.org](http://www.gbfund.org)
- Navis Capital Partners: [www.naviscapital.net/](http://www.naviscapital.net/)
- responsibility: [www.responsAbility.com](http://www.responsAbility.com)

There are significant information resources regarding impact investing available on the Global Impact Investing Network online hub ([www.thegiin.org](http://www.thegiin.org)).

## Products supplied and requirements applied

### 1. Banks and NBFIs

Banks provide a range of working capital loans, term loans and overdrafts, together with a limited range of non-lending services. SMEs are normally charged interest rates in the region of 18-22 per cent p.a. All banks require collateral for SME loans above a certain size, while below the threshold personal guarantees are invariably demanded. The cut-off varies greatly between the banks, with some as low as Tk100,000 (US\$1,250) and others requiring collateral once the loan size reaches Tk2.5m (US\$31,000).

The other key requirement is a business history of at least one year and for many banks it is three years. Exceptionally, one bank (IBBL) is willing to consider lending to start-up SME businesses.

Each bank has a detailed list of requirements for prospective clients when applying for loans. These include some or all of the following:

- Audited accounts, normally only for larger businesses
- Identification, such as a Tax ID number
- A business licence
- A record of bank account transactions
- Business premises rental agreement

In the case of start-up businesses accepted by IBBL, a business plan is also required. Contact details and basic SME product information can be found on the SME Foundation website: [www.smef.org.bd](http://www.smef.org.bd) (see below).

## 2. MFIs

Credit services by MFIs include general microcredit, microenterprise loans, seasonal loans and loans for disaster management. Interest rates vary from MFI to MFI but are capped at 27 per cent p.a.

MFIs are not allowed to take deposits from the public. This means that only members/clients can receive these often very appropriate services. It also limits the MFI sectors' ability to increase credit volumes and leads to some unquantified, pent-up demand.

Many MFIs do offer other services to customers, e.g. micro-insurance and remittances, plus some non-financial assistance /advice, that reflects their NGO base. Non-financial assistance is deemed as being important to nurturing SME sector growth. This might include training on enterprise creation, business skills development, financial literacy and financial management training.

### Access to advice and support for finance

An institution which is set up specifically to provide advice in this sector is the SME Foundation. Businesses can approach the Foundation for advice on matters relating to SME and entrepreneur capacity building. This can include promotion and market expansion for SME products, linkages between buyers and sellers, advice and guidelines on establishing a new business and/or SME business manuals and specific product fairs.

Other donor agencies working in the field of advice /assistance to SMEs include KfW/DEG, USAID, the Swiss Development Agency and the Gates Foundation. International development agencies such as Action Aid UK, CARE and Oxfam have also made substantial contributions to the sector, in terms of grants, technical assistance (including financing research) and model documentation. However, in common with the SME Foundation, individual SMEs cannot normally seek direct financing from these donors or aid agencies.

### Conclusion

This report shows that, while there are supply problems in SME finance in Bangladesh, there are options for inclusive businesses in the SME finance market. Lending from formal banks has increased, with IBBL the largest lender. There are hundreds of Microfinance Institutions, with a significant total volume of lending. Non Bank Financial Institutions are relatively modest players, but can provide useful services. Equity Investors are not widely sought after by SMEs, but there are a number of Funds that can offer equity - or equity combined with debt. Some of these are defined as Impact Investment Funds which focus on businesses that seek combined social, commercial and environmental impact.

SMEs can take action to expand their funding options by ensuring they meet requirements of lenders and funds. For example, having a credible business plan, a trading record, audited accounts and a financial structure that is open to different forms of investment – in particular equity investment as well as debt. They can also build the case for impact investment by understanding the potential social impact of their business. They should show investors that they have systems in place to measure their social impact.

## Additional resources:

**The landscape of SME finance in Bangladesh: An analysis of providers, products, requirements and constraints**, is the full report on which this summary is based.

<http://bit.ly/TLgljl>

Our **Database of Financial and Technical Support** for Inclusive Business provides a list of over 200 organisations that offer financial and/or technical support to inclusive businesses:

<http://bit.ly/ib-support-database>

There is a 'know how' section on **innovative business planning**:

<http://businessinnovationfacility.org/page/innovating-business-planning>

**Are you investment ready?** – our Checklist of things to consider when assessing whether your business is ready to attract investment

<http://bit.ly/checklist-invest-ready>

**Inclusive business looking for finance?** – this Spotlight provides an introduction to what is available and how to target your best solution: <http://bit.ly/SnH1fL>

Looking to track and report social impact to investors? – this Spotlight covers four options:

**Approaches companies use to track their social impact:** A comparison of four options:

<http://bit.ly/X04Z3Z>



Challenges Consulting, which is part of the Challenges group ([www.challengesworldwide.com](http://www.challengesworldwide.com)), provides business consulting and mentoring for inclusive businesses in developing countries.



**For further information and to view other Project Resources, go to:**

Practitioner Hub on inclusive business at: [www.businessinnovationfacility.org](http://www.businessinnovationfacility.org)

The Business Innovation Facility (BIF) is a pilot project funded by the UK Department for International Development (DFID). It is managed for DFID by PricewaterhouseCoopers LLP in alliance with the International Business Leaders Forum and Accenture Development Partnerships. It works in collaboration with Imani Development, Intellectap, Renaissance Consultants Ltd, The Convention on Business Integrity and Challenges Worldwide. The views presented in this publication are those of the author(s) and do not necessarily represent the views of BIF, its managers, funders or project partners and does not constitute professional advice.

We welcome feedback on our publications – please contact us at [enquiries@businessinnovationfacility.org](mailto:enquiries@businessinnovationfacility.org)