

CMSME Stimulus & Refinancing



List of Abbreviations

BB	Bangladesh Bank
CMSME	Cottage, Micro, Small, and Medium Enterprise
DFS	Digital Financial Services
FI	Financial Institution
GDP	Gross Domestic Product
MFI	Micro Finance Institution
SME	Small and Medium Enterprise
SMESPD	SME & Special Programmes Department



Executive Summary

LightCastle Partners has summarized the Government of Bangladesh (GoB)'s Stimulus and Refinancing Packages to assist COVID-affected CMSMEs. The summary includes mechanisms of and recommendations for the following assistance programs: a **20,000 crore BDT Stimulus Package** for affected CMSMEs, half of which will be funded by a **10,000 crore BDT Refinancing Package**.

Crucial role of SMEs in Bangladesh's Economy

- 6 mn SMEs contribute to 25% of GDP and 40% of production output
- 6 mn SMEs create 7.8 mn Direct Employment and provide 31.2 mn Livelihood

Pandemic-Related Hurdles: A joint study, conducted by LightCastle Partners & Sheba.xyz in late April, with over 230 SMEs shows that:

- 28% SMEs have seen revenue drop by at least 50% due to the pandemic, while 52% SMEs have stopped business operations
- 2/3rd of the SMEs have a window of less than four months to survive in current conditions before they exhaust all their cash reserves
- 52% of SMEs prefer soft loans at lower interest rates to survive the crisis

Government Assistance Programs for Affected CMSMEs

- Stimulus Package, worth 20,000 crore BDT, will be partially financed by Banks and FIs and disbursed to COVID-affected CMSMEs in the form of working capital loans. 9% Interest Rates to be split as follows: 4% CMSME & 5% Government Subsidy
- The eligibility of the CMSMEs to get the stimulus package will depend on their Credit Scores or Financial Data
- Refinancing Package, worth 10,000 crore BDT, will finance the other half of Stimulus Package. It will be funded by Bangladesh Bank, and disbursed to Banks and FIs assisting CMSMEs with the Stimulus Package. Interest Rates are 4% for Banks/FIs

Recommendations & Way Forward

- Integrate Technology: Digitize application process, loan disbursement, SME supply chain, and build a central database of CMSMEs while involving different stakeholders, e.g., MFIs, BAB, etc. Establish online and phone assistance programs for applicants
- Credit Guarantee: Build a judicious credit guarantee system to alleviate uneven risk burden on Banks/FIs
- Capacity Building: Train SME workforce to pivot to production of more high-value goods and services



SME Landscape



6mn SMEs Contributing \$79 bn in the Economy

6_{mn}

SMEs currently in Bangladesh

25%

of the GDP is contributed by SMEs

7.8_{mn}

People are employed in the SME sector

\$79_{bn}

is contributed by the SMEs into the economy (2018)

2/3





Employment in the private sector is created by SMEs

40%

of the production output contribution of Bangladesh



Definition of **CMSMEs**

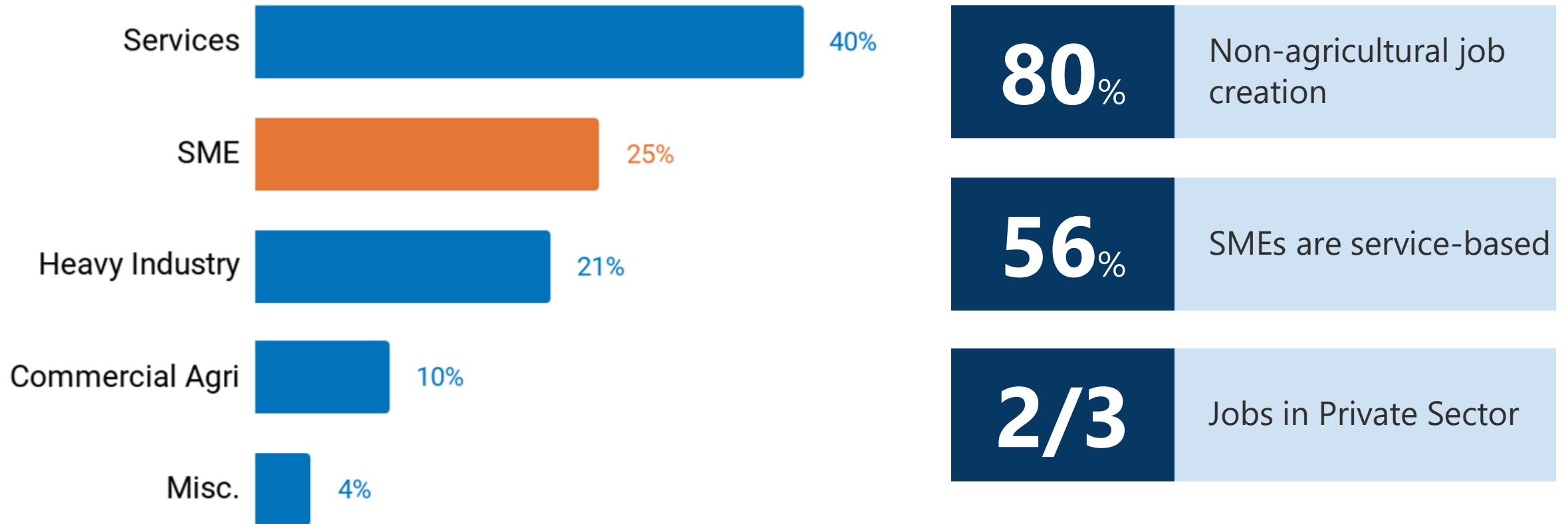
Type of Industry		Amount of Investment in Tk (Replacement Cost and Value of Fixed Assets, excluding Land and Factory Buildings)	Number of Employed Workers
 Cottage Industry		Below 1 million	Maximum 15
 Micro Industry		1 to 7.5 million	16 - 30
 Small Industry	Manufacturing	7.5 to 150 million	31 - 120
	Service	1 to 20 million	16 - 50
 Medium Industry	Manufacturing	150 to 500 million	121 - 300
	Service	20 to 300 million	51 - 120

Source: National Industrial Policy, Government of Bangladesh, 2016.

SMEs Create **7.8 mn** Direct Employment & Provide **31.2 mn** Livelihood



SMEs Contribution to Bangladesh's GDP is **25%**





Economic Activity of MSME

MSME Activities

Distribution of Enterprises by Major Economic Activities, 2013 (Numbers in `000)

	Micro		Small		Medium		Large		All	
	Numbers in `000	%	Numbers in `000	%	Numbers in `000	%	Numbers in `000	%	Numbers in `000	%
Manufacturing	831.2	12.0	30.9	3.59	3.0	42.1	3.12	59.4	868.2	11.1
Other industrial activities	26.1	0.4	7.8	0.91	0.3	4.6	0.17	3.2	34.3	0.4
Trading and related activities	3,057.7	44.0	531.0	61.80	0.6	8.9	0.08	1.5	3,589.5	45.9
Transport and storage	1,265.9	18.2	37.7	4.39	0.2	2.3	0.04	0.8	1,303.8	16.7
Other services	1,766.0	25.4	251.9	29.32	3.0	42.2	1.84	35.0	2,022.7	25.9
Total	6,946.9	100.0	859.3	100.0	7.1	100.0	5.25	100.0	7,818.6	100.0

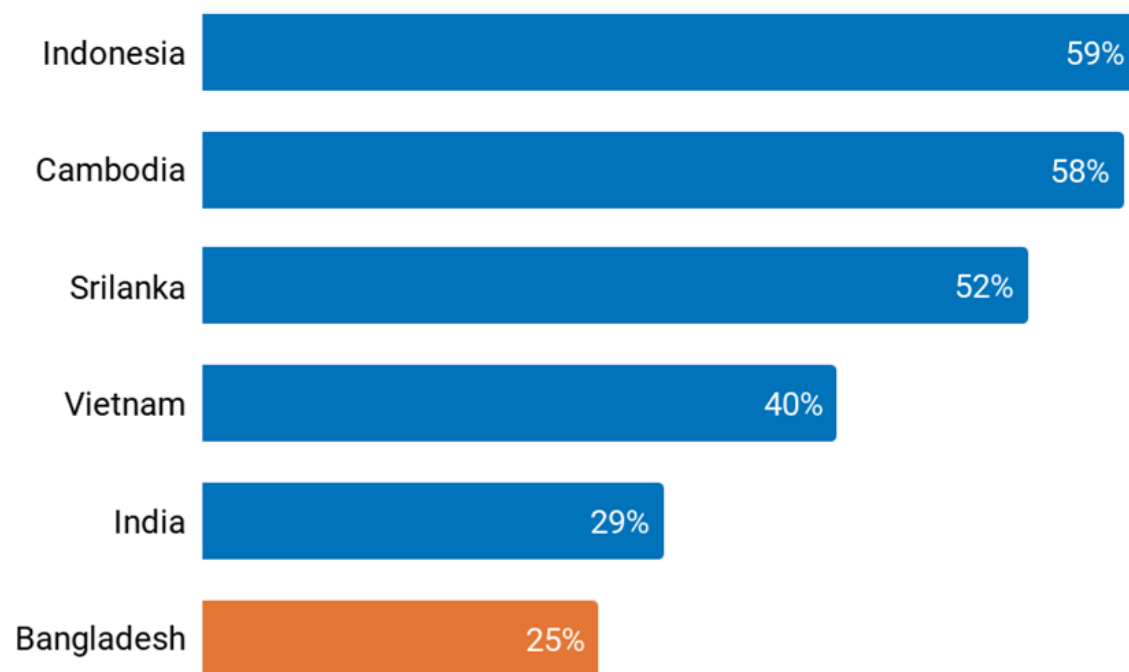


SMEs Contribution amidst **Existing Hurdles**

25%

Of the Bangladesh's GDP is contributed by SMEs and has the potential for more if existing hurdles are removed.

SME Contribution to GDP: Comparison in Asia



HURDLES



Access to Finance, difficult to manage credit without financial footprint & relation with banks



Poor Market Linkage, absence of backward & forward market linkage



Lack of Skilled Labor, inadequate infrastructure of vocational & technical learning



Absence of Export Market, inferior quality hinder the prospect of exporting



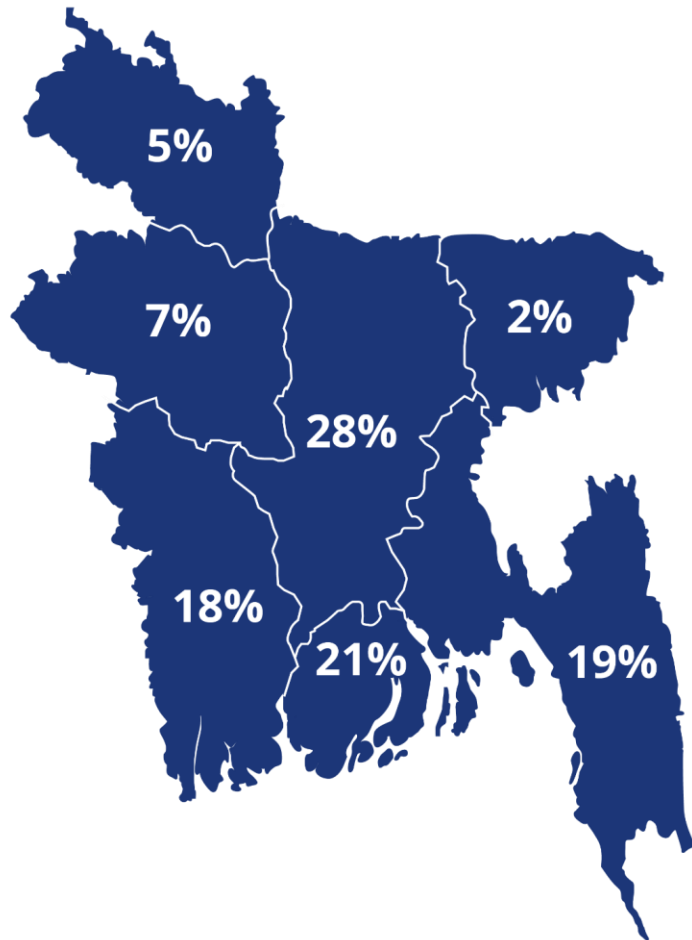
Effect of COVID-19 on CMSMEs



SME COVID-19 Study Landscape: Respondent Snippet

230





SME Respondents from 7 divisions took part in the primary survey conducted by LightCastle Partners and Sheba.xyz



Divisions Covered

- ▶ Dhaka
- ▶ Barisal
- ▶ Chattogram
- ▶ Khulna
- ▶ Rangpur
- ▶ Rajshahi
- ▶ Sylhet

Industries Covered

	Services*	51.6%
	Vegetable & Grains	25.4%
	Retails Store	13.5%
	Fisheries	3.0%
	Jute Diversified Products	3.0%
	Poultry	2.0%
	Dairy	1.5%

* Food Catering, Electrician Services, Laundry, Beauty Salon, MFS Agent & Restaurants



52% SMEs have Shutdown amid the COVID-19 Pandemic

52%

Businesses have stopped operations

28%

SMEs saw at least a 50% drop in revenue

68%

SMEs have **runway** of <4 months before permanent shutdown

40%

Of **Service SMEs** saw at least 50% drop in revenue

46%

To **layoff at least 50%** employee within 4 months

42%

SMEs **cut marketing cost** to "0" zero

14%

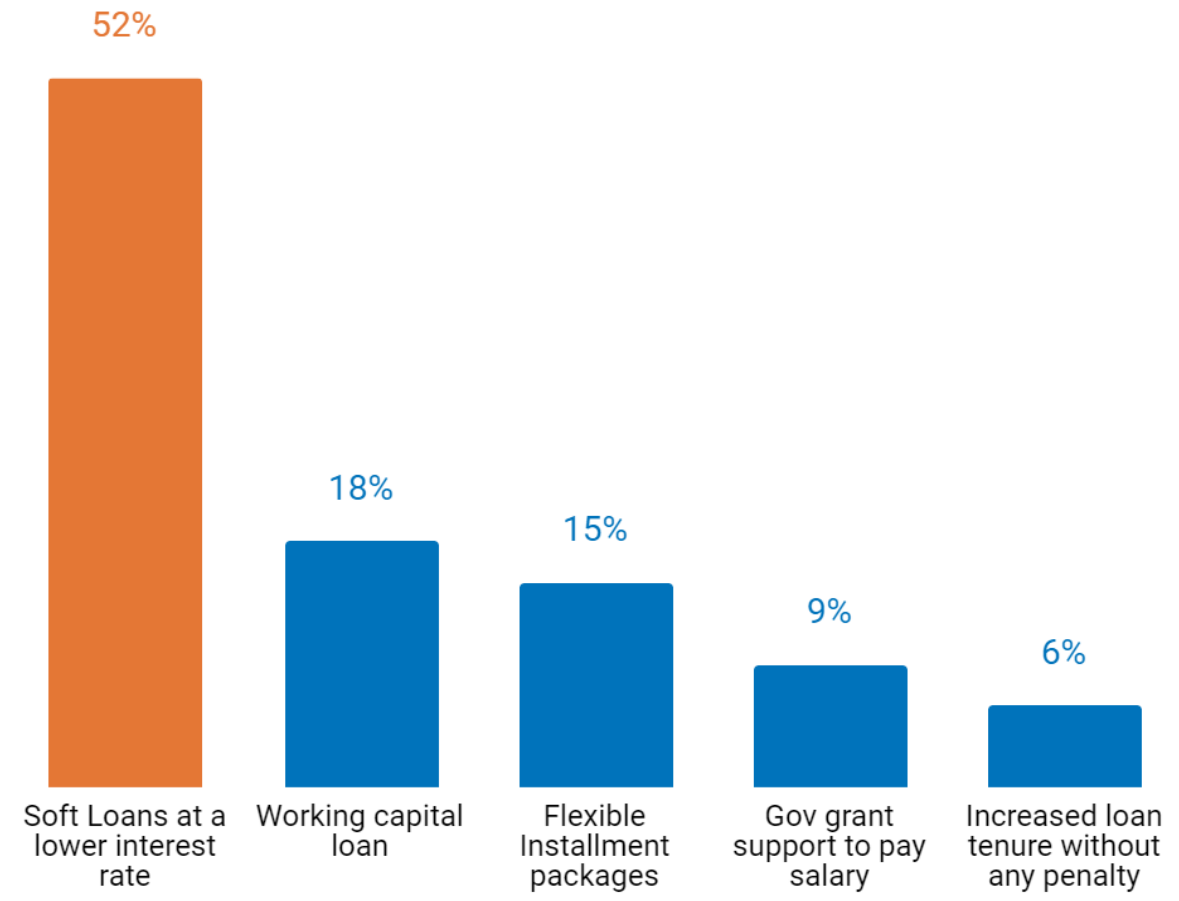
Have **laid of all** of their employees



Preferred Financial Support by the SMEs

52%

SMEs Prefer Soft Loans at Lower Interest to Survive this Crisis



Source: LightCastle Partners & Sheba.xyz Primary Survey, April 2020; n=230



Stimulus & Refinancing Programs



List of Circulars/Assistance Announcements

Circular	Date Released
SMESPD Circular No. 01: Special Working Capital facility for CMSME sector under Financial Incentive package-TK 20,000 Crore	13/04/20
SMESPD Circular No. 02: Tk 10,000 Crore Refinance Scheme for CMSME sector to provide working capital facility to the Entrepreneurs	26/04/20
SMESPD Circular Letter No. 01: Reporting, monitoring, loan disbursement, and other issues (related to SMESPD Circular-1/2020) under special incentive package for CMSME sector	30/04/20
SMESPD Circular Letter No. 02: A few amendments applicable for existing "Small Enterprise Refinance Scheme", "Refinance Scheme for Setting up Agro Based Product Processing Industries in Rural Areas", & "Refinance Scheme for New Entrepreneurs in Cottage, Micro and Small Enterprise Sector" to support CMSME	07/05/20



Stimulus Package for Working Capital

Bangladesh Bank Stimulus Packages - **CMSME**



The Government of Bangladesh announced ~ **73,000 Crore BDT** worth Stimulus Packages for Different **Sectors Affected by COVID-19***

Financial Stimulus Package for **COVID-Affected CMSME**

20,000 Crore BDT: Working Capital Loans

Refinancing Scheme for **Banks/FIs** Facilitating CMSMEs with **Working Capital Loans**

10,000 Crore BDT: Refinancing Scheme for Banks/FIs & finances half of 20,000 Crore BDT Stimulus Package



20,000 Crore BDT: CMSME Stimulus Package



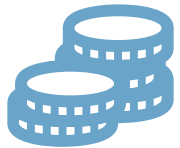
TOTAL AMOUNT

20,000 Crore BDT- Fixed



TARGET

COVID-19 affected CMSMEs



FUND SOURCE(S)

10,000 Crore BDT- Banks & Financial Institutions*
10,000 Crore BDT- BB's Revolving Refinance Scheme (see later)



PURPOSE

Only **Working Capital Loans**



INTEREST RATES

4% CMSME + 5% GOVT. SUBSIDY



20,000 Crore BDT: CMSME Financial Incentive



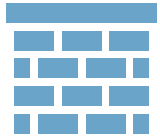
DURATION OF THE PACKAGE

3 YEARS



MAX. YEARS OF COVERAGE

1 CMSME – MAX. 1 Year



LENDERS' LIMIT

MAX. 10% of Bank/FI's **CMSME Debt Fund** for **Working Capital Loans****



LENDERS' RESPONSIBILITY

Inform BB's **SMESPD** about their **CMSME Debt Fund Capacity**, within **3 Months** of Release of this Circular



Allocation & Use of Stimulus Package

Application & Use of Stimulus Package

▶ Loan Allocation to CMSME: based on Type of Work



Production-oriented



Service-oriented



Business/Trade-oriented

▶ Loan Allocation to CMSME: based on Size of the Enterprise



▶ Loan Allocation to CMSME: based on location

Minimum

15% CMSMEs in village

▶ Loan Allocation to CMSME: based on gender

Minimum

5% Female entrepreneurs

▶ Loan can only be used for working capital



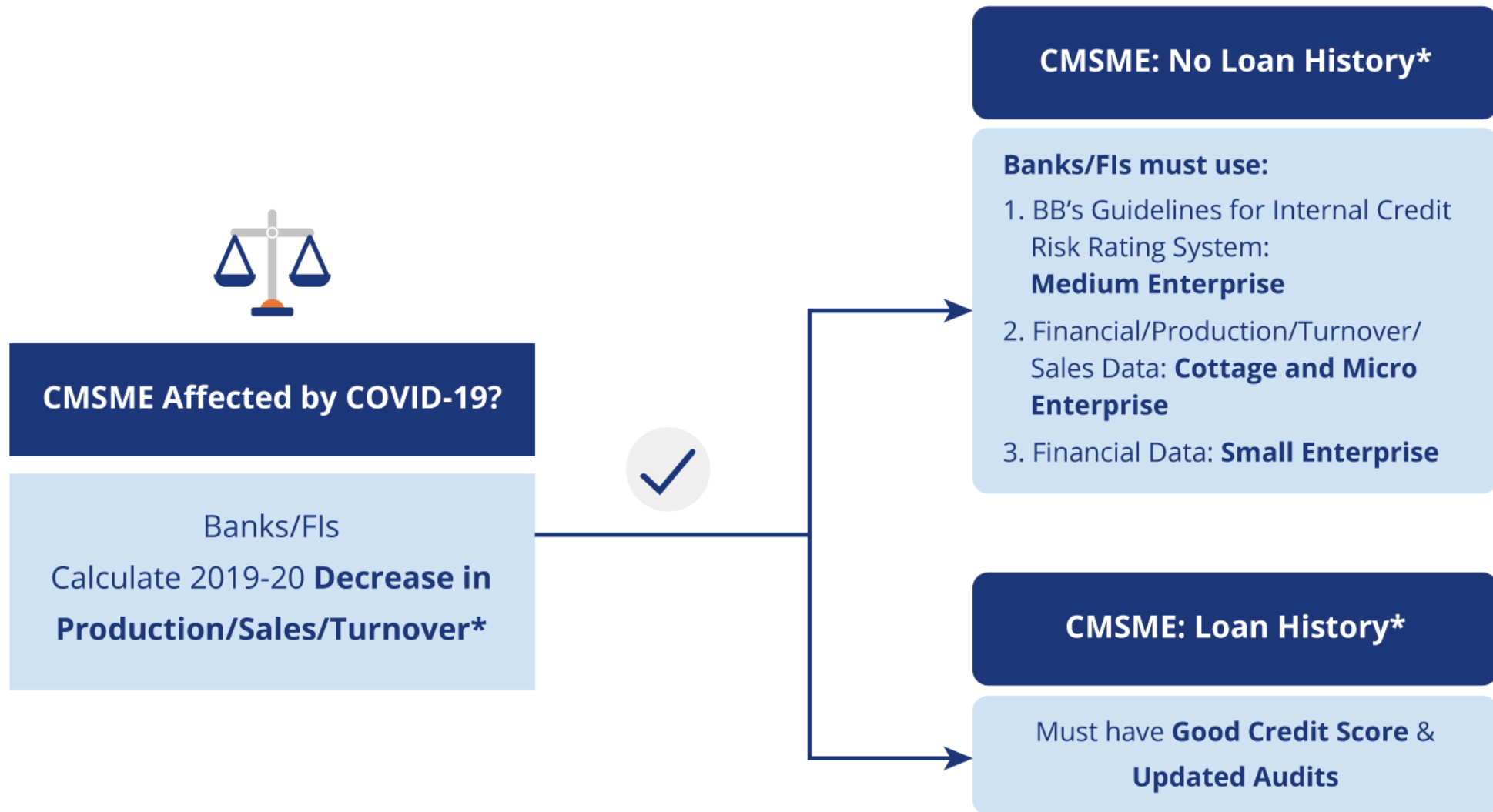
Application & Disbursement Process

Application & Disbursement Process for Stimulus Package





Eligibility: Only COVID-Affected CMSME





Evaluation: BB Requires CMSMEs' Data

EVALUATION

- ❖ **Approval** depends → **lender regulations & lender-client relationships**
- ❖ **Clients** who have been **more affected** will get **priority**, based on Bank/FI's calculation on the **CMSMEs' production/sales/turnover since Jan 20** and **decrease compared to 2019**
- ❖ **Lenders** to provide all data to **BB SME & Special Programmes Department**
- ❖ **Rules and regulations** from **5 Sept. 2019 circular** to apply
- ❖ **BB's credit limit** for **single enterprise** to apply
- ❖ **Lender** will have a **monitoring cell** at **head office** to monitor activities under this program



Evaluation: Loan Amt. vary by Type/Credit History

CMSMEs: No Loan History*

- ❖ **Production/Service-Oriented Enterprise:**
Loan Amount is Lower of:
 1. **50% of Avg. Annual Production/Sale/Turnover OR**
 2. **30% of Credit Limit**
- ❖ **Trade-Oriented Enterprise: Maximum Loan ~ 25% of Avg. Annual Turnover. Maximum limit of 1 crore BDT**

CMSMEs: Loan History*

- ❖ **Production/Service-Oriented Enterprise:**
Loan Amount is Lower of:
 1. **50% of Avg. Operation Expense OR**
 2. **30% of Existing Credit Limit ***
- ❖ **Trade-Oriented Enterprises: Maximum Loan ~ 25% of Avg. Annual Turnover. Maximum limit of 1 crore BDT**

All CMSMEs must submit Financial Reports from Last 3 Years

DISBURSEMENT

- ❖ **Fixed Total Amount** → **BDT 20,000 Crore**
- ❖ **Banks/FIs Capacity** → **Max. 10%** of the **CMSME Debt Fund**
- ❖ **Declining Balance Method** → **Interest Payment**
- ❖ **Accelerated Process** to process and disburse working capital loans
- ❖ **Lender** must give **BB information** about activities by **10th of each month**
- ❖ **BB's SME and Special Programmes Department** to have **Special Monitoring Cell**
- ❖ **Maturity period** → **1 year**; Borrower can **withdraw & repay loan within 1 year**
- ❖ **Every 3 months**, **the 5% subsidy** deposited in **Lender's BB account**
- ❖ **Lender** must submit **Progress Report** → **BB's Budgeting & Accounting Dept.**

GUIDELINES

- ❖ **Lender** must **Preserve** all **Application Documents**
- ❖ **No Adjusting Existing Loans with Stimulus: Interest Rate** will be **9%** if incentive used to **adjust existing loans**
- ❖ **Borrower** to **pay 9%** if **failure** of **timely 4% interest payment**
- ❖ **Lender** cannot **charge** additional **service charge***
- ❖ **BB** to **cancel individual incentive** for **enterprise's failure** to **follow rules**
- ❖ **Lender's Misrepresentation of Information** → **2% penalty on distributed loans & Cancellation of Incentive**

Guidelines: Loans for Working Capital Only

GUIDELINES

- ❖ **Outstanding Loan cannot > Credit Limit**
- ❖ **If Outstanding Loan > Credit Limit, due to interest for any CMSME, it must be paid back within 5 working days of every 3-month period**
- ❖ **Loan Collection Responsibility is 100% of Banks/FIs**
- ❖ **Bank/FIs' Failure to Obtain Repayment → No Subsidy from BB**



Revolving Refinancing Scheme

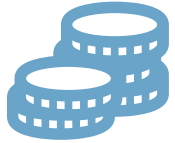


10,000 crore BDT: Revolving Refinance Scheme*



TARGET

Banks/FIs participating in CMSME Financial Incentive



FUND SOURCE(S)

Bangladesh Bank (BB)



PURPOSE

Working Capital Loans for CMSMEs



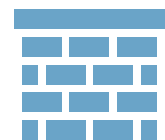
INTEREST RATES

4% Bank/FI



DURATION

3 YEARS



LENDER LIMIT

MAX. 50% of Bank/FI's Credit Limit for CMSMEs**

Eligibility: Lenders participating in CMSME Incentive

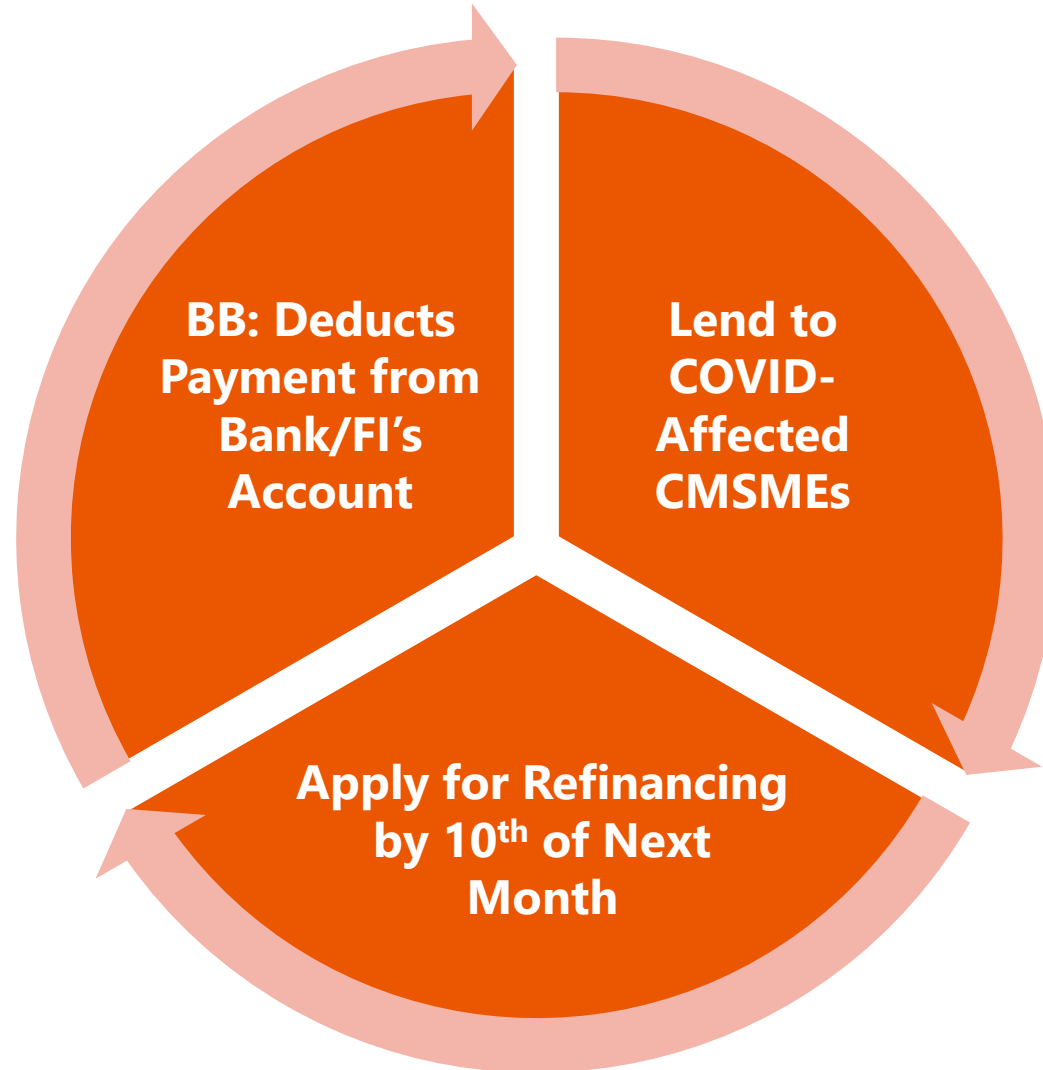


Eligibility

- ❖ Target: **Banks/FIs** lending in **CMSME Incentive**
- ❖ **Financially Struggling Banks/FIs** evaluated **case-by-case**
- ❖ **Banks/FIs** sign **agreement paper** with **BB** regarding **Bank/FIs' annual credit limit**
- ❖ **Banks/FIs** subject to **limits** of **Refinancing Scheme**



Procedure: Banks Apply After Lending to CMSMEs



Guidelines: Loans for CMSME Incentive Only



GUIDELINES FOR BANK/FI

- ❖ **Banks/FIs** to get **3-month Grace Period** if **Enterprise gets Grace Period**
- ❖ **Penalty** of **2%** for **late payment**
- ❖ **BB** to **require all documents & Audit/Field Visits**
- ❖ **Misuse of Loans:** Bank/FI must pay **additional 2% interest & initial loan**
- ❖ **BB** to **cancel individual incentive** for **enterprise's failure to follow rules**



Challenges & Recommendations



Technical & Financial Challenges

EXHAUSTIVE DOCUMENTATION

- ❑ **CMSMEs** often **lack records/data**
- ❑ **Banks** will **struggle** to **conduct field visits** during **lockdown**

LOW FEMALE PARTICIPATION

- ❑ **Minimum 5% Female Entrepreneurs** to get Working Capital Loans
- ❑ **Threshold** may **not** be **high enough**

INSUFFICIENT LOAN SUPPLY*

- ❑ **Reduction** in **interest rate** often causes **spike** in **Loan Applications**
- ❑ **Loan Supply** may be **insufficient** to fulfil **CMSME Loan Demand**
- ❑ **CMSMEs without existing lender relationships** may be deprived

NO CREDIT GUARANTEE

- ❑ **High Risk** borne by **Banks/FIs**
- ❑ **Higher Risk** for **Bank/FIs** in **Refinance Scheme**
- ❑ **No Mandatory Minimum Loan Target** for Banks/FIs – lack of incentive



Recommendations

INTEGRATE TECHNOLOGY

- ✓ **Digitize supply chain** for CMSMEs
- ✓ **Digitize document collection & upload**

CENTRAL DATABASE

- ✓ Include **relevant details** of all CMSMEs
- ✓ Involve **SME Foundation, BAB, BLFCA** & build **digital network of entrepreneurs**

APPLICATION ASSISTANCE

- ✓ **Online & Phone** Service for application
- ✓ **Special Desk** for **Female, Rural and New Loan Applicants**
- ✓ Enlist support of **MFIs** for **Training & Loan Processing & Disbursement**

CREDIT GUARANTEE

- ✓ System must be **designed considering risk premium to reduce Bank/FIs' Risk**
- ✓ **Monitored Frequently** to prevent misuse
- ✓ **Set mandatory Loan Targets** to Incentivize Banks/FIs

CAPACITY BUILDING

- ✓ **Special Incentives** for **Training** CMSME workforce
- ✓ **CMSMEs** must also take **initiative** to apply for **funding & training programs**



Recommendations

✓ **Integrate Technology:**

- ✓ Fintech and Digital Financial Services (DFS) can be used to streamline multiple aspects of the process.
- ✓ Digitization of loan applications and document uploads will accelerate processing and increase access to stimulus package during lockdown.
- ✓ Digitization of the supply chain will shock-proof the CMSMEs

✓ **Central Database/Affiliation of CMSMEs:**

- ✓ Database must include relevant details of all CMSMEs, for example, ownership details, type of economic activity, etc.
- ✓ Database will play key role in updating CMSME stimulus and refinancing program.
- ✓ Database must be developed with cooperation between SME Foundation and organizations that work with CMSMEs and must be accessible by relevant associations, e.g., Bangladesh Association of Banks (BAB), Bangladesh Leasing and Finance Companies Association (BLFCA).



Recommendations

✓ **Application Assistance:**

- ✓ Online and Phone Services in both English and Bengali will be critical during the lockdown.
- ✓ Special Help Desks should be established in different bank branches, especially in rural areas.
- ✓ MFIs, which have extensive networks, can be enlisted to help with loan applications and processing.

✓ **Credit Guarantee:**

- ✓ A well-designed credit system should be established by BB to reduce the high risk borne by Bank/FIs.
- ✓ The credit system must be judicious to avoid misuse by Bank/FIs and the design of the system must consider the risk premium

✓ **Capacity Building :**

- ✓ Training programs should aim to improve skills of CMSME workforce and help CMSMEs pivot to production of high-value goods/services.



THANK YOU!

Address: Level 5, House 10/12, Road 1, Block B, Niketan Gulshan 1, Dhaka 1212

Phone: +880 1712 194 944 | +880 1711 385 988 | +880 1747 353 438

Email: info@lightcastlebd.com

Website: <http://www.lightcastlebd.com> | <http://www.lightcastledata.com>

Blog: <http://www.lightcastlebd.com/blog>

Reports: <https://databd.co/reports>

