

## Agricultural and CMSME Finance

9.01 Agriculture plays a crucial role as a priority sector of the Bangladesh economy. It is also the main source of rural employment and the income-generating sector of the country. Direct contribution of this sector to Bangladesh's GDP is approximately 12.07 percent in FY21 (constant price 2015-16 base). According to the Labour Force Survey (LFS) 2017 by Bangladesh Bureau of Statistics (BBS), agriculture employs approximately 41 percent of the total workforce. Moreover, the agricultural sector has been playing an important role in meeting the nation's nutrition demands, ensuring food security, increasing export earnings, and improving the income level of the people as a whole.

9.02 In line with the broad-based objective of the development agenda of the Government of Bangladesh (GoB), every year Bangladesh Bank (BB) formulates "Agricultural and Rural Credit Policy and Programme" to ensure adequate flow of funds to the agricultural and rural economy in a proper, timely and hassle-free way for the benefit of the farmers. With a view to improving the socio-economic condition of the country and emphasising the role of the agricultural and rural sectors, agricultural and rural credit policies and programmes have been implementing through all the scheduled banks operating in Bangladesh. During FY21, BDT 255.11 billion (97.03 percent of target) was disbursed as agricultural and rural credit through all scheduled banks, against the target of BDT 262.92 billion (Table 9.01).

### The Major Achievements of the Agricultural Credit Programme in FY21

9.03 The major features and achievements of the programme implemented in FY21 were as follows:

**Table 9.01 Comparative Statement of Disbursement and Recovery of Agricultural Loan\***

Disbursement	(Billion BDT)		
	FY19	FY20	FY21
<b>1. Disbursement (target)</b>	<b>218.8</b>	<b>241.4</b>	<b>262.9</b>
a) Crops loan (other than tea)	116.9	131.9	156.6
b) Purchase and installation of irrigation equipment	6.2	13.0	9.8
c) Livestock	27.1	24.4	29.3
d) Marketing of agricultural goods	3.4	5.7	4.5
e) Fisheries	25.0	24.5	28.5
f) Poverty alleviation	11.9	15.8	11.2
g) Other agricultural activities	28.3	26.1	23.0
<b>2. Actual disbursement</b>	<b>236.2</b>	<b>227.5</b>	<b>255.1</b>
a) Crops loan (other than tea)	118.8	114.0	128.9
b) Purchase and installation of irrigation equipment	3.2	2.7	4.4
c) Livestock	32.5	31.7	35.3
d) Marketing of agricultural goods	1.2	1.3	1.8
e) Fisheries	26.8	26.1	29.5
f) Poverty alleviation	19.5	20.9	20.4
g) Other agricultural activities	34.3	30.9	34.9
<b>3. Term structure of loan disbursed</b>	<b>236.2</b>	<b>227.5</b>	<b>255.1</b>
a) Short term	199.3	191.5	220.7
b) Long term	36.9	36.0	34.5
4. Recovery	237.3	212.5	271.2
5. Due for recovery	304.6	279.8	336.6
6. Total outstanding loan	429.7	455.9	459.4
7. Overdue	66.9	60.6	58.7
8. Overdue as percentage of outstanding	15.6	13.3	12.8

\* Excluding Bangladesh Rural Development Board and Bangladesh Samabaya Bank Limited.

Source: Agricultural Credit Department, Bangladesh Bank.

- Around 3.06 million farmers availed agricultural and rural credit facility, of which 1.61 million women got BDT 92.88 billion from different banks.
- Around BDT 5.19 billion was disbursed among about 0.08 million farmers through 14,702 open credit disbursement programmes arranged by different banks.
- Around 2.25 million small and marginal farmers availed BDT 176.40 billion

- agricultural loans from different banks.
- About BDT 0.34 billion agricultural and rural credit was disbursed among about 7796 farmers living in less developed areas like *haor*, *char*, etc.
- Around 9.83 million bank accounts were opened for farmers in the state-owned commercial banks (SCBs) and other scheduled banks with an initial deposit of BDT 10 only.
- Bangladesh Krishi Bank (BKB) distributed more than BDT 0.68 billion to 18,663 tribal farmers in the three hill tract districts at a 5.0 percent interest rate.

### Credit Disbursement to Agriculture

9.04 In recent years, agricultural and rural finance programmes seem to have been boosted as the private commercial banks (PCBs), and foreign commercial banks (FCBs) along with state-owned commercial banks (SCBs) have come forward to disburse agricultural credit in the country. The actual disbursement in FY21 was BDT 255.11 billion, which was 12.14 percent higher than the actual disbursement of BDT 227.49 billion in FY20. Table 9.01 shows the comparative position of overall disbursement and recovery of agricultural loans during FY19–FY21, and Charts 9.01 and 9.02 show targets and actual disbursement of agricultural loans respectively in FY21.

9.05 Short-term loans accounted for approximately 86.50 percent of the total disbursement while long-term loans for irrigation equipment, agricultural machinery, livestock, and other purposes accounted for the remaining 13.50 percent. During FY21, credit for crop production accounted for 58.41 percent of total short-term loans (Table 9.01).

9.06 The total outstanding loans in the agricultural sector (all banks) in FY21 increased by BDT 3.47 billion, or 0.76 percent to BDT 459.40 billion from BDT 455.93 billion in FY20 (Table 9.02).

9.07 Two specialised banks Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB) and six SCBs played a key role in the disbursement of agricultural and rural credit. The contribution of FCBs and PCBs was also imperative in this regard. The BKB and FCBs exceeded the disbursement targets by 9.95 and 20.82 percent respectively and SCBs, RAKUB and PCBs fell short of achieving the disbursement target by 15.81, 1.19, and 6.85 percent respectively in FY21 (Table 9.02). Apart from this, Bangladesh Rural Development Board (BRDB) and Bangladesh Somobay Bank Limited (BSBL) disbursed BDT 10.33 billion from their own funds, which increased the total disbursement to BDT 306.60 billion (including banks) during FY21.

**Table 9.02 Agricultural Credit Performance by Lenders\***

(Billion BDT)

	FY19	FY20	FY21					Total
			SCBs	BKB	RAKUB	PCBs	FCBs	
Disbursement target	218.00	241.24	31.95	60.00	18.50	145.46	7.01	<b>262.92</b>
Actual disbursement	236.16	227.49	26.90	65.97	18.28	135.49	8.47	<b>255.11</b>
Recovery	237.34	212.45	24.61	66.70	22.72	147.12	10.09	<b>271.24</b>
Overdue	669.16	60.60	22.22	13.82	16.04	6.57	0.00	<b>58.65</b>
Outstanding	429.74	455.93	116.19	183.40	40.33	115.67	3.81	<b>459.40</b>

\* Excluding Bangladesh Rural Development Board and Bangladesh Samabaya Bank Limited.

Source: Agricultural Credit Department, Bangladesh Bank.

### Credit Recovery

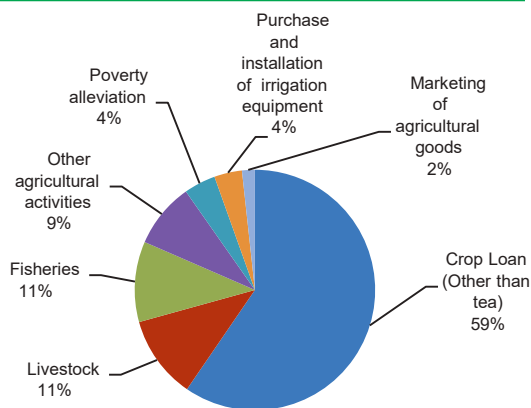
9.08 It is very important for the banks to conduct proper intensive supervision to ensure smooth recovery along with taking appropriate measures to disburse credit to the real farmers. During FY21, the recovery of agricultural credit increased by 27.67 percent to BDT 271.24 billion from BDT 212.45 billion in FY20. Consequently, the rate of recovery as a percentage of outstanding was 59.04 percent during FY21, which was higher than that of 46.60 percent in FY20 (Table 9.02).

9.09 The overdue as percentage of outstanding agricultural loans decreased from 13.29 percent at the end of June 2020 to 12.77 percent at the end of June 2021 (Table 9.01 and 9.02).

### Sources of Agricultural Finance

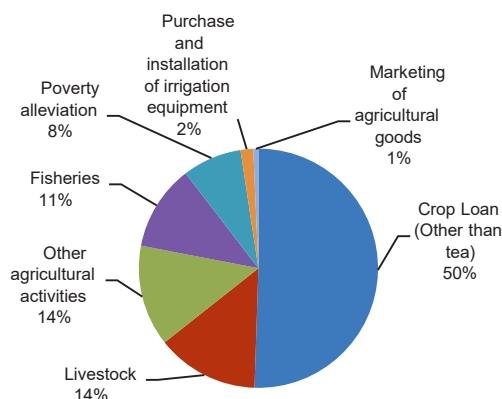
9.10 Two specialised banks (BKB and RAKUB) and six SCBs play a key role in the disbursement of agricultural and rural finance. Moreover, PCBs also play a significant role in the annual disbursement of agricultural loans. In FY21, two specialised banks (BKB and RAKUB) and six SCBs disbursed BDT 111.15 billion or 43.57 percent of total disbursement of BDT 255.11 billion. PCBs and FCBs disbursed BDT 135.49 billion and BDT 8.47 billion which were 53.11 percent and 3.32 percent respectively of their total disbursement (Table 9.02). The SCBs' overdue loans as a percent of their agricultural outstanding loans stood at 19.12 percent at the end of FY21, while the overdue loans of RAKUB and BKB were 39.77 and 7.54 percent respectively of their outstanding loans (Table 9.02). The PCBs' overdue loans as a percentage of their outstanding loans stood at 5.68 percent at the end of FY21.

**Chart 9.01 Target for Agricultural Credit Disbursement in FY21**



Source: Agricultural Credit Department, Bangladesh Bank.

**Chart 9.02 Actual Agricultural Credit Disbursement in FY21**



Source: Agricultural Credit Department, Bangladesh Bank.

### Interest Subsidy from Government (Budgetary Allocation)

9.11 In spite of a large demand for pulses, oil seeds, spices and maize, the production of these crops is not sufficient in the country. In order to encourage production of such crops and disbursement of loans to this sector by the state-owned (commercial and specialised) banks at concessional interest rates at the farmer level, interest rate has been set at 4.0 percent from 1 July 2010 under the interest-loss

subsidy facilities of the government. Along with the state-owned (commercial and specialised) banks, PCBs and FCBs have been disbursing loans since FY12 against their annual agricultural and rural credit targets in pulses, oil seeds, spices and maize cultivation under the government's facility of 5.0 percent interest subsidy. The overall scenario of credit disbursement for the specified crops is shown in Table 9.03.

9.12 During FY21, 36 banks received BDT 0.023 billion interest subsidy at the rate of 5.0 percent on their disbursements. During FY21, BDT 1.27 billion was disbursed by banks on import substitute crops and the relevant amount of interest subsidy is under process as per the existing policy.

#### Interest Subsidy from Bangladesh Bank

##### Scheme for Disbursement of Agricultural Loan at 4 Percent Concessional Interest Rate for Grain and Crop Sectors to Mitigate the Crisis Due to Outbreak of the Novel Coronavirus

9.13 Due to the outbreak of the Novel Corona Virus, it is necessary to provide agricultural loans at a concessional interest rate to continue food production and supply at a normal level. With this view, banks are instructed (through the ACD circular-02 dated: 27 April 2020) to provide agricultural loan at 4.0 percent concessional interest rate (maximum) for cultivating grain crops, cash crops, vegetables and tuber crops as mentioned in agricultural and rural credit policy and programme. Against the disbursement of these loans, banks will be reimbursed at 5.0 percent as interest loss from BB. These facilities were effective from 1 April 2020 and continued up to 30 June 2021. To avail the reimbursement

**Table 9.03 Credit Disbursement for Specified Crops**

(Million BDT)			
FY	Target	Actual Disbursement	Achieved
FY20	1233.25	1065.69	86.41%
FY21	1415.00	1268.52	89.64%

Source: Agricultural Credit Department, Bangladesh Bank.

facility, banks had to ensure that loans were disbursed directly to the farmers at a maximum of 4.0 percent through their own network. Beside these, they had to follow norms and rules and regulations of the annual agricultural and rural credit policy. After the completion of the financial year, banks could claim for reimbursement amount against adjusted/repaid loans to BB. BB normally justify the claims at random basis by inspecting minimum 10.0 percent of the claims. Then the reimbursements are made from BB's own fund. During FY21, banks disbursed BDT 45.94 billion at the end user level under this scheme.

#### Refinance Facility from Bangladesh Bank

##### Refinance Facility under Government Guarantee

9.14 With a view to enriching the country's economy and food security, BB has been continuously supporting BKB and RAKUB by providing refinance facilities under government guarantee. The rate of interest at the participating financial institution (PFI) level is 4.0 percent, and the ultimate borrower level is 8.0 percent, and the loan tenure is a maximum of one year. During FY21, BKB and RAKUB availed BDT 10.0 billion and BDT 5.0 billion, respectively, as refinance facilities from BB against their agricultural and rural credit finance.

### Refinance Scheme for Milk Production and Artificial Insemination

9.15 In order to ensure nutrition security for the mass people of the country, to reduce dependency on imported milk and milk products and to promote self-employment for unemployed youth, BB has introduced a refinance scheme for milk production and an artificial insemination scheme with a fund of BDT 2.0 billion since 2015. Fourteen participating banks and financial institutions entered into a participation agreement with BB to avail a refinance facility with an interest subsidy of 5.0 percent. The banks and financial institutions get refinance facilities from BB against their disbursed amounts. After recovery of the loans from the borrowers, the concerned banks and financial institutions are eligible for a 5.0 percent interest subsidy from the government against their disbursed amount, subject to fulfillment of terms and conditions. In this scheme, the participating banks and financial institutions have disbursed BDT 2.0 billion to the end borrowers. Up to 30 June 2021 a total BDT 1.3 billion has been recovered from the participating banks and financial institutions whereas during FY21 the recovery amount was BDT 0.89 billion. A total of 18,429 borrowers were benefited from the scheme.

### Refinance Scheme for the Jute Sector

9.16 Bangladesh Bank allocated an amount of BDT 3.0 billion to provide working capital to jute goods manufacturing companies, jute exporters and raw jute traders. A total of BDT 0.145 billion was refinanced among four beneficiaries during FY21.

### Special Refinance Scheme for Agricultural Sector

9.17 The recent outbreak of the Novel Corona Virus is likely to lead to a series of adverse conditions, including a reduction in food production. According to the annual

agricultural policy, banks must distribute at least 60.0 percent of their total targeted amount to the crop sector. To fund the current capital-based farming, a special re-financing scheme amounting to BDT 50.0 billion has been formulated for the agricultural sector (horticulture, fish farming, poultry, dairy and livestock sectors). Under this refinance scheme, banks disburse agricultural loans to the borrowers' level at a 4.0 percent interest rate. On the other hand, the PFIs are refinanced by the BB at a 1.0 percent interest rate. The scheme is funded by BB's own resources and the nature of the fund is non-revolving. To access the scheme's refinancing facility, 43 PFIs have already signed participation agreements with BB. During FY21, BDT 50.0 billion was allocated among the 43 PFIs and BDT 42.95 billion was disbursed among 1,83,070 beneficiaries.

### Demand Loan

9.18 Another special type of finance is provided to the banks by BB to meet the regular agricultural credit flow, which is a demand loan with 90 days of maturity against their demand promissory note. During FY21, RAKUB availed BDT 18.0 billion of demand loans.

### Development Partners' Funded Agricultural Credit Related Project/Programme Operated under Bangladesh Bank's Supervision

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

9.19 With a view to increasing the agricultural productivity and diversity of the small and marginal farmers of Bangladesh by

**Box 9.01 Inception of Credit Guarantee Scheme (CGS) through Bangladesh Bank**

The "Credit Guarantee Scheme (CGS) Unit" was established under the SME and Special Programmes Department of BB on 29 August 2019 primarily aimed at implementing the 'Local Finance Initiatives Support to SMEs (LF-I-SME) Project' in Bangladesh. As the COVID-19 outbreak rapidly surges both globally and domestically, the Bangladesh Bank Board of Directors approved a CGS fund worth BDT 20 billion on 23 July 2020, for the purpose of issuing guarantees against collateral-free loans/investments for cottage, micro, and small enterprises (CMSEs). The potential CMSEs that usually fail to meet the collateral requirements for obtaining loans from banks and financial institutions are considered to be assisted by the CGS. Accordingly, BB issued a "Manual of Credit Guarantee Scheme" highlighting required operational procedures of the CGS for banks and financial institutions on 3 November 2020. The government also includes it as the 20th financial stimulus package for mitigating pandemic situation of the COVID-19. Under this scheme, any CMSE with no collateral or insufficient collateral can avail of a collateral-free loan/investment for one year, ranging from BDT 0.2 million to BDT 5.0 million. If a loan/investment registered under the CGS failed and or lost to repay, the participating financial institution (PFI) will receive a maximum of 80.0 percent coverage of credit given to the CMSE, while the PFI will have to bear the risk of the rest 20.0 percent of the loan/investment, provided that their total claim does not exceed 30.0 percent of the PFI's total portfolio guarantee limit (PGL). The key achievements of the credit guarantee scheme of Bangladesh Bank in FY20-21 are highlighted below.

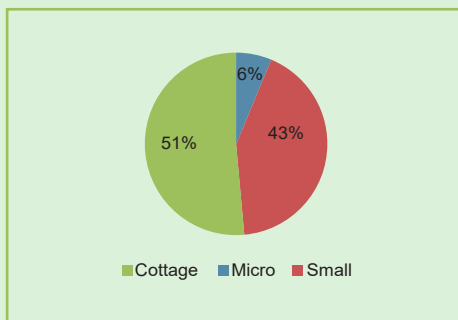
The Unit offers banks and financial institutions, for the first time in 2020, to submit an expression of interest to accomplish participation agreement. Accordingly, 25 banks and financial institutions signed the agreement under the financial stimulus package and the total amount of portfolio guarantee limit was BDT 9615.2 million. So far in 2021, 37 banks and financial institutions have completed their participation agreement with a total PGL of BDT 17983.5 million, which is significantly higher than that of the PGL of the preceding year.

A total of 274 guarantee applications from 16 (sixteen) districts were received from the different PFIs in 2020. Chart A and B show the percentage shares of guarantees issued for various categories of enterprises and percentage shares of guarantee issued for various economic sectors, respectively. Based on the total number of guarantee registration issued, a total of 141 or around 51.0 percent enterprises were from the small, 117 or around 43.0 percent were from the micro, and the remaining 16 or around 6.0 percent were from the cottage enterprise category. Most of the registered guarantee receivers (38.0 percent) were engaged in the trading business while borrowers from the manufacturing and service sector obtained around 35.0 percent and 27.0 percent guarantee registrations, respectively.

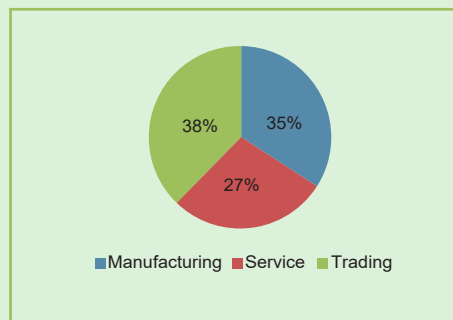


**Box 9.01 (Continued)**

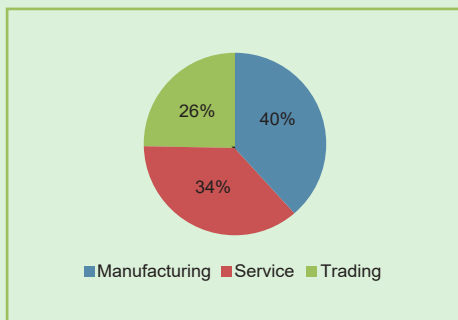
**Chart A: Percentage Shares of Guarantee Issued under the CGS for Various Category Enterprises**



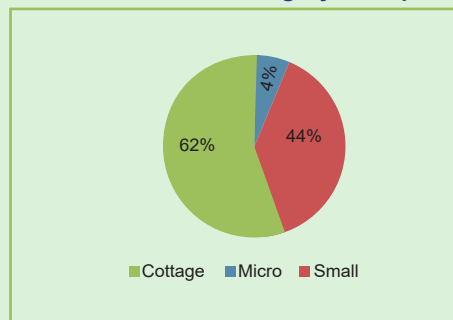
**Chart B: Percentage Shares of Guarantee Issued under the CGS for Various Economic Sectors**



**Chart C: Percentage Shares of Credit Disbursement under the CGS in Various Economic Sectors**



**Chart D: Percentage Shares of Credit Disbursement under the CGS in Various Category Enterprises**



Source: Credit Guarantee Scheme Unit, Bangladesh Bank.

Among the 274 CMSEs, a total of BDT 290.39 billion loan/investment was guaranteed in 2020. The manufacturing sector received the largest loan/investment of BDT 116.03 million or around 40.0 percent of total credit disbursement, followed by the service and trading sectors under the CGS (Chart C). Considering the enterprise category, the small enterprises received the most credit (BDT 180.42 million, or 62.0 percent), while cottage enterprises received the least credit guarantee under the CGS (Chart D).

The empowerment of women and improving their social as well as economic status are essential for achieving sustainable development. Accordingly, one of the key policy initiatives taken by the CGS Unit of BB is that all PFIs will have to earmark at least 10.0 percent of their total PGL for collateral-free loans/investments to the women entrepreneurs for enhancing their access to finance. In this regard, it is worth mentioning that, of the total guarantee applications for the year 2020, almost 15.0 percent of the beneficiaries were women-owned CMSEs.

providing agricultural loans and technical support services to farmers through microfinance institutions, this revolving pre-finance project started its journey in 2015. Japan International Cooperation Agency (JICA) is the donor agency for this project, and the GoB portion of this project is contributed by BB with a total cost of BDT 8.23 billion with the tenure of 2014–2021. To avail the pre-finance facility from the project, 11 participating microfinance institutions (PMFIs) signed agreement with BB. During FY21, BDT 5.82 billion was disbursed to 1,09,570 end borrowers through 11 PMFIs. Since its inception, a total of BDT 25.57 billion was disbursed to 4,581,061 borrowers of which 83.0 percent was female. In addition to disbursement of credit to the borrowers, technical support services (TSS), a unique part of the project has been provided to end borrowers to familiarise themselves with new scientific cultivation methods, new agro-machinery, and new method of cattle rearing, etc. The SMAP-Project Implementation Unit of BB has given thrust on disbursing credit for diversifying products in agriculture and livestock under this project.

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

9.20 This project started its operation in 2011 with USD 26.0 million funded by the ADB. The participation agreement was signed between BB, BASIC Bank Ltd. and Eastern Bank Ltd. The project implementation area covers 54 upazilas in 25 districts in the north and south-western zones of Bangladesh. From beginning to 30 June 2021, BDT 2.04 billion was disbursed to 0.204 million farmers.

#### **Pre-finance under Government Guarantee**

##### **Ansar-VDP Unnayan Bank**

9.21 Bangladesh Bank provides a pre-finance facility to Ansar-VDP Unnayan Bank for implementing its agricultural and micro-credit programmes. The objective of this facility is to extend credit facilities to the members of Ansar-VDP to alleviate poverty and expand income-generating activities. These loans are provided with a government guarantee covering the loan amount and interest accrued thereon. As of 30 June 2021, the outstanding principal amount of loans stood at BDT 4.75 billion. BB provided BDT 0.75 billion at the bank rate (4.0 percent) and the maximum interest rate at borrower level is 8.0 percent. The remaining amount of BDT 4.0 billion was provided by BB at 2.0 percent and the maximum interest rate at borrower level is 5.0 percent for agricultural credit and 8.0 percent for microcredit. At the end of June 2021, a total of 40,255 beneficiaries were benefited from this programme since its inception, of which 22,543 beneficiaries were benefited in FY21.

##### **Karmasangsthan Bank**

9.22 Karmasangsthan Bank also avails a pre-finance facility from BB against government guarantee. It covers credit facilities to its customers in the fishing and livestock sectors (including the sectors mentioned in the "Bangabandhu Youth Loan Policy") out of the traditional loan facility. As on 30 June 2021, a total of BDT 9.75 billion was provided to Karmasangsthan Bank, of which BDT 6.75 billion was a 5-year term loan, BDT 2.9 billion was a 3-year mid-term loan and BDT 0.10 billion was a 1-year short-term revolving loan renewable up to 3 years depending on



**Table 9.04 Disbursement of CMSME Credit by Banks and NBFIs**

Period	Net outstanding based Target	Sub-categories				Total	Women entrepreneur	Achievement
		Manufacturing	Service	Trading				
2020	2291.53	808.43	425.05	834.56	2068.04	82.44	90.25%	
2021*	2527.11	850.43	414.82	828.68	2093.92	82.87	82.86%	

\* January-June for 2021.

Source : SME and Special Programmes Department, Bangladesh Bank.

fulfillment of conditions. BB offers these loans at bank rate while Karmasangsthan Bank currently charges a maximum interest rate of 8.0 percent to its customers. The loans provided to their customers should comply with the annual agricultural and rural credit policies published by BB and the bank's "Bangabandhu Youth Loan Policy." Up to 30 June 2021, a total of 65,888 beneficiaries were benefited from this programme.

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

9.23 The CMSME sector has been contributing to economic development to the marginal people through ensuring access to institutional financing for the underprivileged people, micro, small and female entrepreneurs of the country. BB has been continuing its refinancing facilities to customers during FY21

for banks and NBFIs in order to provide CMSMEs loans at a low cost which will contribute to improve the standard of living of the mass people and ensure women's empowerment through the expansion and development of the CMSME sector. In this regard, BB has been providing different refinance facilities-refinancing scheme for agro based industries in rural areas, small enterprises refinance scheme, new enterprises refinance fund for CMSMEs, Islamic Shariah-based refinance fund, COVID-19 refinance scheme, Japan International Cooperation Agency (JICA)-assisted financial sector project for the development of SME (FSPDSME) fund, JICA-assisted urban building safety project (UBSP) and programme to support safety retrofits and environmental upgrades in the Bangladeshi ready-made garment (RMG) sector (SREUP).

**Table 9.05 Statement of Refinance on CMSMEs under Different Refinance Schemes of BB (up to June 2021)**

Name of Fund	Amount refinance (Billion BDT)				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	8.88	4.96	8.55	22.39	3228	-	-	3228
2. Small enterprises refinance scheme	10.77	30.05	9.11	49.93	14252	22123	6213	42588
3. New enterprises refinance fund for CMSMEs	0.05	0.52	0.02	0.59	333	352	229	914
4. Islamic shariah-based refinance fund	3.85	0.87	1.43	6.15	233	626	62	921
5. COVID-19 refinance scheme	34.26	-	-	34.26	-	97814	-	97,814
6. JICA FSPDSME	0.90	6.12	3.83	10.85	958	34	600	1,592
7. JICA UBSP	-	-	0.79	0.79	06	-	-	06
8. SREUP	-	-	0.89	0.89	10	-	-	10
<b>Grand Total</b>	<b>58.71</b>	<b>42.52</b>	<b>24.62</b>	<b>125.85</b>	<b>19020</b>	<b>120949</b>	<b>7104</b>	<b>147073</b>

Source : SME and Special Programmes Department, Bangladesh Bank.

**Table 9.06 Refinance Scheme for Agro-based Product Processing Industries in Rural Area (up to June 2021)**

Banks/NBFIs	Amount Refinance (Billion BDT)				No. of Beneficiary (Sector wise)			
	Working Capital	Mid Term Loan	Long Term Loan	Total Loan	Industry	Trade	Service	Total
1 Bank (44)	8.18	2.12	2.08	12.4	1969	-	-	<b>1969</b>
2 NBFIs (27)	0.70	2.84	6.47	10.0	1259	-	-	<b>1259</b>
<b>Total</b>	<b>8.88</b>	<b>4.96</b>	<b>8.55</b>	<b>22.4</b>	<b>3228</b>	<b>-</b>	<b>-</b>	<b>3228</b>

Note: Figures in the parentheses show number of banks and NBFIs .  
Source: SME and Special Programmes Department, Bangladesh Bank.

Banks and NBFIs have come forward for financing and the development of the SME sector under the close monitoring and supervision of BB. Total loan and advance outstanding in the CMSME sector was BDT 2,093.92 billion at the end of June 2021, representing 82.9 percent of the annual CMSME net outstanding based target of BDT 2527.11 billion set by banks and NBFIs for 2021 (Table 9.04).

### Refinance Schemes

9.24 Presently, SMESPD of BB is running five refinance schemes from its own funds and three projects with assistance from JICA, AIIB and European development partners in the CMSME sector, which are revolving in nature. In addition, three other refinance schemes have been successfully completed (Table 9.05). A total amount of BDT 125.85 billion was provided to different banks and NBFIs under different refinance/pre-finance schemes up to June 2021 against 1,47,073 enterprises (including 97,814 enterprises under COVID-19

refinance scheme). Out of the total refinance, BDT 58.71 billion was provided as working capital, BDT 42.52 billion as medium term loan, and BDT 24.62 billion as long term loan. These pre-finance/refinance facilities are benefitting CMSMEs to expand their business and thereby creating new employment opportunities. Details of BB's refinancing facilities to banks and NBFIs for promoting CMSMEs are outlined in Table 9.05.

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

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

9.25 In order to boost agro-product-processing industries in areas outside divisional headquarters and Narayangonj town, BB launched a scheme of BDT 14.0 billion . Under this scheme, refinance facilities are being provided to banks and NBFIs at 3.0 percent and beneficiaries of CMSMEs are getting funds at a preferential interest rate of

**Table 9.07 Refinancing under Small Enterprise Refinance Scheme**

Banks/NBFIS	Amount Refinance (Billion BDT)				No. of Beneficiary (Sector wise)			
	Working capital	Mid term loan	Long term loan	Total loan	Industry	Trade	Service	Total
1 Bank (44)	9.60	13.68	3.90	27.18	8568	15553	3766	<b>27917</b>
2 NBFIs (27)	1.17	16.37	5.21	22.75	5654	6570	2447	<b>14671</b>
<b>Total</b>	<b>10.77</b>	<b>30.05</b>	<b>9.11</b>	<b>49.93</b>	<b>14222</b>	<b>22123</b>	<b>6213</b>	<b>42588</b>

Note: Figures in the parentheses show number of banks and NBFIs .  
Source: SME and Special Programmes Department, Bangladesh Bank.

7.0 percent (3.0 percent + maximum 4.0 percent spread). An amount of BDT 22.40 billion was disbursed under this scheme till the end of June 2021 against 3,228 enterprises on a revolving basis (Table 9.06).

### Small Enterprise Refinance Scheme

9.26 Bangladesh Bank introduced a refinancing scheme named "Small Enterprise Fund (SEF)" of BDT 15.0 billion out of its own fund for supporting the development of small enterprises in the country. To encourage women entrepreneurs to take CMSME initiatives, a refinance facility is being provided at a lower interest rate. The bank and NBFIs can borrow funds from BB at a 3.0 percent interest rate (which was previously 5.0 percent) and disburse to SMEs at a rate of 7.0 percent (which was previously 9.0 percent). Refinancing facilities of up to 100.0 percent of the amount disbursed under this scheme were made available to 44 banks and 27 NBFIs in exchange for financing to CMSME entrepreneurs. Up to June 2021, BDT 49.93 billion was refinanced under this fund among 42,588 enterprises (Table 9.07).

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

9.27 In order to provide start-up capital to new cottage, micro and small enterprises, BB

provides up to BDT 2.5 million to the perspective entrepreneurs as CMSE loan with collateral security and up to BDT 1.0 million CMSE loan without collateral security. Rate for such credit is limited maximum at 7.0 percent (3.0 percent for BB + maximum 4.0 percent spread). As of 30 June 2021, a total of 914 new entrepreneurs were refinanced worth of BDT 590 million from this scheme (Table 9.09).

### Refinance Scheme for Islamic Shariah-based Financing

9.28 With the objective of increasing the involvement of Islamic banks and NBFIs in CMSMEs financing, a special refinance fund in Islamic Shariah mode was created by BB. Under this fund, Islamic banks and NBFIs get refinance facilities for agro-based industries, small entrepreneurs (including female entrepreneurs) and new entrepreneurs in the cottage, micro and small enterprise sector. At the end of June 2021, BDT 6.15 billion was refinanced to banks and NBFIs against their refinancing to 921 enterprises (Table 9.08).

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

9.29 As per the loan agreement signed between JICA, Japan and the government of Bangladesh (GoB) BB has been implementing the financial sector project for the development of small and medium-size enterprises

**Table 9.08 CMSME Refinance Scheme for Islamic Shariah-Based Financing in Agro-Based Industries, Small Entrepreneurs' (Including Women Entrepreneur) and New Entrepreneurs' in Cottage, Micro and Small Enterprise Sector**

Banks/NBFIS	Amount Refinance (Billion BDT)				No. of Beneficiary (Sector wise)			
	Working capital	Mid term loan	Long term loan	Total loan	Industry	Trade	Service	Total
1 Banks (3)	3.49	0.13	0.00	3.62	117	492	32	641
2 NBFIs (1)	0.36	0.74	1.43	2.53	116	134	30	280
<b>Total</b>	<b>3.85</b>	<b>0.87</b>	<b>1.43</b>	<b>6.15</b>	<b>233</b>	<b>626</b>	<b>62</b>	<b>921</b>

Note: Figures in the parentheses show number of banks and NBFIs .  
Source: SME and Special Programmes Department, Bangladesh Bank.

(FSPDSME)-BD-P67 project. The fund size was 5,000 million Japanese Yen, including a technical assistance component. BB provided participating financial institutions (PFIs) with refinancing or pre-financing facilities at the bank rate (currently 4.0 percent) for lending to CMSME sub-projects of productive investment for medium to long-term duration at the market rate. As of June 2021, BDT 10.85 billion was refinanced against 1592 enterprises (Table 9.05)

### Urban Building Safety Project (UBSP)

9.30 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. As per the loan agreement between the governments of Japan (represented by JICA) and Bangladesh, JICA provided JPY 12,086 million. A total of 25 banks and 10 NBFIs signed participating agreements with SMESPD of BB until June 2021. As of June 2021, BDT 0.79 billion was refinanced against six enterprises (Table 9.05).

### New Entrepreneurs Creation and Entrepreneurship Development

9.31 The government of Bangladesh (GoB) has launched a project titled "Skills for Employment Investment Programme (SEIP)" with the assistance of the Asian Development Bank (ADB) and Swiss Agency for Development and Cooperation (SDC) to scale up the skills of young workers and new entrants. The SMESPD of BB is serving as the implementing agency of the project. Under the SEIP project, a total of 11,484 unemployed youth received skill trainings on 10 different trades arranged by 10 outsourced training institutes where the female

enrollment rate was 32.0. Among the total enrolled trainees, 11,246 were certified as skilled by the industry assessor. The total number of job placements was 8,459, representing 75.22 percent of the total certification. It is notable that among job placements, 2,310 became entrepreneurs in the CMSME sector.

### Implementation of New Projects

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

9.32 The SMESPD department of BB is implementing a project specially designed to strengthen the economic sustainability of the RMG sector named "Programme to Support Safety Retrofits and Environmental Upgrades in Bangladeshi Readymade Garments (RMG) Sector Project (SREUP)". Through Euro 50.0 million credit and Euro 14.29 million grant facilities from Agence Francaise de Developpement (AFD) and other developing partners such as the European Union (EU), KfW Development Bank, German Agency for International Cooperation (GIZ), and BB, this project has been initiated to develop the sustainable, safe, and environment friendly RMG sector through financial and technical support. The project aims to invest and incentivise grants in the RMGs' safety retrofitting and environmental and safety measures up gradation, which will make them compliant to boost the export of RMGs from Bangladesh. For the RMG owners, the interest rate is capped at 7.0 percent in order to be attractive to factories where the period of the loan repayment is in a range of 3 to 7 years. The project implementation period is set from 1 January 2018 to 31 December 2022. BB has

signed participation agreements with 12 banks and two NBFIs. RMG owners can avail the loan facility from selected banks/NBFIs under this project. Already, BDT 1.21 billion was distributed to 12 RMG factories until December 2021.

### Refinance Scheme Aimed at Providing Credit Facilities to the CMSME Sector Affected by the (COVID-19) Pandemic

9.33 Under CMSME stimulus packages, a revolving refinance scheme of BDT 100.0 billion was introduced by BB to ensure the liquidity flow of banks and NBFIs to provide credit facilities to the COVID-19 affected CMSME enterprises. Up to June 2021, BDT 34.26 billion was refinanced through banks and NBFIs against 97,814 enterprises (Table 9.10).

### Credit Guarantee Scheme

9.34 CMSEs are facing financial difficulty caused by the COVID-19 pandemic in recent periods. Under such situation, BB has come up with the credit guarantee scheme to support the CMSMEs that fail to meet the collateral requirements of the banks and NBFIs. This guarantee scheme is also included as the 20th stimulus financial package of the government for mitigation of the pandemic situation of COVID-19. Moreover, to expedite this noble initiative, BB has also published the "Manual of Credit Guarantee" for the banks and NBFIs on

3 November 2020. Under this stimulus package, any entrepreneur can avail of a collateral-free loan with a ranging from BDT 0.2 million to BDT 5.0 million. The Credit Guarantee Scheme (CGS) Unit of BB received a total of 274 guarantee applications from 16 districts through different PFIs. The CGS Unit has already issued guarantee of a total of BDT 0.29 billion against 274 CMSEs, of which almost 15.0 percent are women-owned enterprises, although women-owned CMSEs are prioritised in availing of the credit guarantee facilities. For 2021, 37 banks and NBFIs have completed their participation agreements with a portfolio guarantee limit (PGL) of BDT 17.98 billion.

### COVID-19 Emergency and Crisis Response Facility Project (CECRFP)

9.35 The loan and the project agreement for the COVID-19 Emergency and Crisis Response Facility Project (CECRFP) were signed on 26 February 2021. An amount of USD 300.0 million was funded for this project by the Asian Infrastructure Investment Bank (AIIB). The aim of this project is to expand the credit facility and reduce the liquidity constraints of CMSMEs caused by the COVID-19 pandemic.

### Steps Taken by BB for Development of CMSMEs until June 2021

9.36 The major initiatives of BB for

**Table 9.09 CMSME Refinancing from New Entrepreneurs Fund (up to June 2021)**

Banks /NBFIs	Amount Refinance (Billion BDT)				No. of Beneficiary (Sector wise)			
	Working capital	Mid term loan	Long term loan	Total loan	Industry	Trade	Service	Total
1 Banks (8)	0.03	0.21	0.01	0.25	149	196	112	<b>457</b>
2 NBFi (4)	0.02	0.31	0.01	0.34	184	156	117	<b>457</b>
<b>Total</b>	<b>0.05</b>	<b>0.52</b>	<b>0.02</b>	<b>0.59</b>	<b>333</b>	<b>352</b>	<b>229</b>	<b>914</b>

Note: Figures in the parentheses show number of banks and NBFIs .

Source: SME and Special Programmes Department, Bangladesh Bank.

increasing credit flow to the CMSME sector are:

- A net outstanding based target for CMSME loans of banks and NBFIs have been introduced instead of the previously used disbursement based target. Banks and NBFIs have been instructed to set their CMSME target to at least 25.0 percent (by 2024) of their net outstanding amount of all loans and advances while maintaining a minimum of 1.0 percent increment each year.
- To ensure sector-wise distribution of the overall CMSME credit portfolio, BB has instructed all banks and NBFIs to distribute their portfolio as follows: at least 40.0 percent for the manufacturing sector; at least 25.0 percent for the service sector and a maximum of 35.0 percent for the trading sector.
- A borrower-friendly loan application form (in Bengali) has been introduced to expedite the application procedure for entrepreneurs.
- All banks and NBFIs have been advised to find and train at least three prospective women entrepreneurs per branch who have not yet received any funds.

### **Selection of Lead Banks in Each District to Co-ordinate with Other Local Scheduled Banks for SME Lending**

9.37 Bangladesh Bank has issued a leadbank circular on 24 January 2021 and developed a lead bank calendar for 2021. This is a yearly calendar of selected lead banks for every district. Through discussion, seminars, and view exchange programmes (virtual meeting i.e. Zoom App), the lead bank disseminates CMSME-related information such as CMSME target-based lending, sector-

**Table 9.10 CMSME Stimulus Packages (up to June 2021)**

Type of Institutions		Refinance	(Billion BDT) No. of CMSME Enterprises
1	Banks	31.71	97,814
2	NBFIs	2.55	
<b>Total</b>		<b>34.26</b>	

Source: SME and Special Programmes Department, Bangladesh Bank.

specific financing and women entrepreneur financing at the grass root level.

9.38 Lead banks are playing an important role in organising CMSME view exchange programmes by engaging all divisional/district level banks' branches, the Association of Chambers of Commerce, investors, businessmen, entrepreneurs, and Bangladesh Small and Cottage Industries Corporation (BSCIC) in consultation with BB Branch Offices. At the outbreak of the COVID-19 pandemic, the government announced stimulus packages of BDT 200.0 billion for the CMSME sector. BB introduced a refinance scheme (revolving) of BDT 100.0 billion to provide a working capital facility for the CMSMEs within the government declared stimulus package. Banks and NBFIs can use this refinancing facility to borrow up to 50.0 percent of the amount disbursed against stimulus packages at a 4.0 percent interest rate. Lead bank also facilitates affected entrepreneurs, especially women entrepreneurs who have been severely affected by the outbreak of COVID-19, to avail hassle-free and less time-consuming credit facilities under the stimulus packages.

### **Industrial Credit**

9.39 Rapid industrialization is required to achieve a desired level of economic growth for any developing countries like Bangladesh. In



**Table 9.11: Disbursement and Recovery of Industrial Loans (FY11-FY21)**

Fiscal Year	Disbursement			Recovery		
	Working Capital	Term Loan	Total	Working Capital	Term Loan	Total
FY11	713.00	321.63	1034.63	566.95	250.16	817.11
FY12	766.75	352.78	1119.53	644.00	302.37	946.37
FY13	1031.66	425.28	1456.94	854.96	365.49	1220.45
FY14	1261.03	423.11	1684.14	1132.91	418.07	1550.98
FY15	1554.77	597.84	2152.61	1179.60	475.41	1655.01
FY16	1993.49	655.39	2648.88	1497.63	482.25	1979.88
FY17	2385.17	621.55	3006.72	1855.33	520.95	2376.28
FY18	2756.29	707.68	3463.97	2029.80	701.93	2731.73
FY19	3190.07	808.50	3998.57	2431.94	765.69	3197.63
FY20	3121.34	742.57	3863.91	2566.06	697.24	3263.30
FY21	3248.26	687.65	3935.91	2854.78	584.89	3439.67

Source: SME and Special Programmes Department, Bangladesh Bank.

this context, the role of the industrial sector is very crucial. To promote SMEs along with large-scale industries, the government of Bangladesh (GoB) has been providing industrial loans and other ancillary supports through banks and financial institutions in the recent years. As a result, the volume of industrial loans disbursement and recovery has gradually been increasing. Year-wise disbursement and recovery of industrial loans from FY11 to FY21 have been presented in Table 9.11.

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

9.40 To institutionalise microfinance operations and build up an inclusive financial market for the economic development of the country, the Microcredit Regulatory Authority (MRA), as the regulator of the microfinance sector, has been working effectively and dynamically. Since its inception, MRA has been regulating the activities of MFIs as per the respective MRA act and issuing required circulars/guidelines and conducting both the off-site and on-site supervision for their desired improvements. MRA has already issued 880 licenses for

microfinance operations and cancelled 134 licenses till June 2021 due to non-compliance of regulatory requirements. In FY21, 746 licensed MFIs have disbursed BDT 1680.98 billion to their more than 33.30 million borrowers. The total savings of the microfinance sector stood at BDT 414.35 billion at the end of June 2021.

9.41 With a view to broadening and smoothening the microfinance process, Palli Karma Sahayak Foundation (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). PKSF provided BDT 48.32 billion loan to 278 POs in FY21, which was BDT 9.65 billion, or 24.95 percent, higher than BDT 38.67 billion in FY20.

9.42 Grameen Bank was established with a vision of poverty eradication and for advancement of social status of the poor. The total amount of loans disbursed by Grameen Bank was BDT 190.57 billion while its recovery stood at BDT 205.28 billion in FY21.

Available information suggest that Grameen Bank and five other large MFIs namely the BRAC, ASA, Proshika, TMSS and BURO Bangladesh have disbursed a total of BDT 1038.18 billion and their recovery stood at BDT 1042.26 billion in FY21. Total outstanding loans and overdue loans were BDT 701.42 billion and 32.92 billion respectively in FY21 which were BDT 715.91 and BDT 17.17 billion respectively in FY20. In FY21, total overdue loans as percentage of total outstanding loans of these large MFIs have significantly increased from 2.40 percent in FY20 to 4.69 percent in FY21 due mainly to the pandemic situation of COVID-19. The microcredit operations of the Grameen Bank and large MFIs are shown in Table 9.12.

**Table 9.12 Microcredit Operations of the Grameen Bank and Large MFIs**

	(Billion BDT)		
	FY19	FY20	FY21
<b>1. Disbursement</b>	<b>1076.64</b>	<b>967.27</b>	<b>1038.18</b>
a) Grameen Bank	251.37	223.08	190.57
b) BRAC	396.12	360.99	429.01
c) ASA	283.68	252.16	285.67
d) Proshika	4.32	4.93	7.90
e) TMSS	49.67	43.91	48.95
f) BURO Bangladesh	91.48	82.20	76.08
<b>2. Recovery</b>	<b>1000.29</b>	<b>887.15</b>	<b>1042.26</b>
a) Grameen Bank	245.06	207.22	205.28
b) BRAC	350.40	325.62	431.08
c) ASA	284.57	236.21	273.13
d) Proshika	4.22	5.39	6.16
e) TMSS	45.09	40.96	46.20
f) BURO Bangladesh	70.95	71.75	80.41
<b>3. Outstanding loans</b>	<b>647.52</b>	<b>715.90</b>	<b>701.42</b>
a) Grameen Bank	158.51	158.62	142.60
b) BRAC	230.43	265.80	263.68
c) ASA	161.10	177.05	189.60
d) Proshika	9.08	13.23	5.15
e) TMSS	28.82	30.93	34.69
f) BURO Bangladesh	59.58	70.27	65.70
<b>4. Loans overdue</b>	<b>14.82</b>	<b>17.16</b>	<b>32.92</b>
a) Grameen Bank	0.92	1.54	5.06
b) BRAC	3.57	6.36	7.79
c) ASA	6.47	6.41	18.22
d) Proshika	0.75	0.80	0.20
e) TMSS	1.16	0.85	0.85
f) BURO Bangladesh	1.95	1.20	0.80
<b>5. Overdue as percentage of outstanding</b>	<b>2.29</b>	<b>2.40</b>	<b>4.69</b>
a) Grameen Bank	0.58	0.97	3.55
b) BRAC	1.50	2.39	2.95
c) ASA	4.02	3.62	9.61
d) Proshika	8.25	6.05	3.82
e) TMSS	4.04	2.74	2.45
f) BURO Bangladesh	3.28	1.71	1.21

Source: Microcredit Regulatory Authority.