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CMSMEs' Access to Finance in Bangladesh: Scope for Alternative Financing Options

Ashraf Al Mamun, Ph.D.
Associate Professor and Director (Research, Development and Consultancy), BIBM

Md. Mosharref Hossain, Ph.D.
Associate Professor, BIBM

Mahmud Salahuddin Naser
Faculty Member (on Deputation), BIBM and Director, Bangladesh Bank

Mohammad Shahidul Islam
Vice President, Eastern Bank Limited

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Mohammad Shahidul Islam
Vice President, Eastern Bank Limited

Bangladesh Institute of Bank Management (BIBM)
Mirpur, Dhaka-1216, Bangladesh

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Research Team

Ashraf Al Mamun, Ph.D., *Associate Professor and Director (Research, Development and Consultancy), BIBM*
Md. Mosharref Hossain, Ph.D., *Associate Professor, BIBM*
Mahmud Salahuddin Naser, *Faculty Member (on Deputation), BIBM and Director, Bangladesh Bank*
Mohammad Shahidul Islam, *Vice President, Eastern Bank Limited*

Editor

Ashraf Al Mamun, ***Ph.D.***
Associate Professor and Director (Research, Development & Consultancy), BIBM

Support Team

Research, Development and Consultancy Wing
Papon Tabassum, *Research Officer, BIBM*
Sk. Md. Azizur Rahman, *Research Assistant, BIBM*
Md. Awalad Hossain, *Computer Operator, BIBM*

Publications-cum-Public Relations Section
Md. Al-Mamun Khan, *Publications-cum-Public Relations Officer, BIBM*
Md. Morshadur Rahman, *Proof Reader, BIBM*

Design & Illustration **Sk. Md. Azizur Rahman,** *Research Assistant, BIBM*

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Plot No-4, Main Road-1 (South), Section-2
Mirpur, Dhaka-1216, Bangladesh.
PABX: 48032091-4, 48032097-8, 48032104
E-mail: bibmresearch@bibm.org.bd
Website: www.bibm.org.bd

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Foreword

As part of the ongoing dissemination of BIBM research outputs, the present research paper contains the findings of the roundtable discussion titled "CMSMEs' Access to Finance in Bangladesh: Scope for Alternative Financing Options". The study was conducted in 2022 and the paper was presented in a roundtable discussion held in August 2022. The study was motivated to identify the alternative financing options based on the financing need of different CMSEs.

It gives me immense pleasure to publish and distribute this research output to the practitioners of the banks and financial institutions, regulatory agencies, academics and the common readers. I hope this research paper will be a valuable resource for professionals, especially for the banking community for developing effective banking products to finance diversified CMSEs for fulfilling their financing need in Bangladesh.

Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

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Ashraf Al Mamun, Ph.D.
Md. Mosharref Hossain, Ph.D.
Mahmud Salahuddin Naser
Mohammad Shahidul Islam

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List of Abbreviations

ADB	Asian Development Bank
ADC	Alternative Delivery Channel
ATMs	Automated Teller Machines
BB	Bangladesh Bank
BIBM	Bangladesh Institute of Bank Management
CMSME	Cottage, Micro, Small and Medium Enterprise
CMSE	Cottage, Micro, and Small
FCB	Foreign Commercial Bank
GDP	Gross Domestic Production
IB	Islamic Bank
IDBP	Inland Documentary Bills Purchase
LTR	Loan against Trust Receipt
MFI	Microfinance Institute
NBFI	Non-bank Financial Institution
NGO	Non-government Organization
OD	Overdraft
PCB	Private Commercial Bank
POSTs	Point of Sales Terminals
RSFs	Risk-sharing Facilities
SB	Specialized Bank
SE	Small Enterprise
SFBs	Small Finance Banks
SME	Small and Medium Enterprise
SMESPD	SME & Special Programs Department
SOCBs	State-owned Commercial Banks
STL	Short Term Loan

Executive Summary

Cottage Micro, Small and Medium Enterprises (CMSMEs) are the influential foundations of economic development, employment creation and for innovation of any country in the world. In both developed and developing counties, this sector provides fuel for industrial development, exterminating regional discrepancies and backward linkage support for larger organizations. In most of the developing countries, CMSMEs are labor oriented sector which serve those market areas where the operations of large firms are mostly absent. Although CMSME sector in Bangladesh is viewed as one of the best choices to enhance GDP growth, minimize poverty level, and create more employment (Begum & Abdin, 2015; Mamun et al., 2022a), this sector faces various difficulties for business start-up, facilitating investments, supporting business operations and ensuring growth potential. Such difficulties revealed both from the corner of demand and supply side and sometime produces dilemma when demand side considers that the problem exhibit in supply side and vice-versa.

Considering the importance of the sector, many banks and other market players like Non-Banking Financial Institutions (NBFIs), Non-Government Organizations (NGOs), Micro Finance Institutes (MFIs), multipurpose cooperatives, informal money lenders, samities, etc. provide financing to the CMSMEs, to some extent, these are not sufficient compared to meet their financing needs (Mamun et al, 2022b). In this context, to increase access to finance in the sector, some other alternative financing options are highly desirable besides existing banking products and mechanisms. Based on these realities, the main objective of the study is to examine the scope for alternative financing options for CMSMEs' access to finance in Bangladesh.

The study mainly used secondary sources in order to achieve the study objectives. In this context, the data from Bangladesh Bank SME portal has been considered. The study used SME, MSME and CMSME interchangeably for the purpose of data availability and literature. Moreover, extant literature, research papers, book chapters have been reviewed.

The contents of this paper are organized into seven sections. Section-1 covers the introduction, background, objectives and methodology of the study; Section-2 reviews the existing policies for CMSME financing with some initiatives. Section-3 shows the CMSME financing scenario in Bangladesh; Section-4 highlights the existing financing products and mechanism of banks. Section-5 presents the CMSME access to finance and finance Gap. Section-6 identify the alternative financing options for CMSME financing and Section-7 recommendations and conclusion.

Alternative financing refers to financing that is accessible outside the conventional large banks. It provides entrepreneurs with a wider range of options and more flexibility when selecting financial services solutions. Alternative financing categorically refers to a class of financing solutions, such as debt and venture capital that fill in holes in traditional financial markets. This study identified a number of alternative financing products and approaches like: *Factoring; Purchase Order Finance; Warehouse Receipt Finance; Leasing; Securitization; Crowdfunding; Risk-sharing Facilities (RSFs); Market place (peer-to-peer) Lending; Revenue based financing; Mezzanine finance; Venture capital; Business angels; Finance from Grant; Small Finance Banks (SFBs); and Capital Market.*

Some key considerations for developing alternative financing options are as follows:

- Comprehensive regulations covering all kinds of access to credit available to CMSEs.
- Establishing of sound, thorough, enforceable, and fair legislative framework.
- Market conduct/client protection.
- Effective and comprehensive credit information system.
- One of the main causes of the limited utilization of some of the available alternative mechanisms is the level of awareness.

- Guaranteeing data protection and privacy rights through proper legislative frameworks to limit the hazards caused by the rising digitalization of CMSEs.
- Coordination with other ministries and regulatory agencies.
- Authorities should make sure grants (from governments and other sources) are administered in a way that benefits the target market.
- The capital market is developed in a way that is CMSE-friendly.

CMSMEs’ Access to Finance in Bangladesh: Scope for Alternative Financing Options

1. Introduction and Background

Cottage Micro, Small and Medium Enterprises (CMSMEs) are the influential foundations of economic development, employment creation and for innovation of any country in the world (Srivastava, 2020). In both developed and developing counties, this sector provides fuel for industrial development, exterminating regional discrepancies and backward linkage support for larger organizations (Manna and Mistri, 2017). In Asia and the Pacific region, MSMEs account for more than 90 per cent of all enterprises and almost the major source of incomes and employment (ADB, 2020). In most of the developing countries, CMSMEs are labor oriented sector which serve those market areas where the operations of large firms are mostly absent (Maksimov, Wang, & Luo, 2017). Even in the social point of view, for resource allocation and reducing regional disparity CMSME sector is more prolific compared to its counterpart. World Bank (2018) statistics shows that SME constitute about 90% of businesses and more than 50%t of world’s employment. The contribution of formal sector SMEs up to 40% of GDP and these contributions would be much higher when informal SMEs are included (World Bank, 2018). Besides, the sector contributes towards increasing export earnings, creating new entrepreneurs, and fulfilling the necessities of most of the large firms (Hossain & Ibrahim, 2020).

Considering the contributions of CMSMEs’ to the economy, it is highly desirable to focus more for developing the sector. LightCastle Partners (2020) finds that SME sector contribute about 25% to the GDP in Bangladesh, generate 70 to 80% of the non-agricultural employment and up to 40% of the manufacturing output. Regardless of having enormous potential, the contribution of this sector to the country’s GDP is still lower than many other neighboring countries. Despite having multi-various problems exhibit in CMSME sector, many of the researchers and academicians still viewed the sector as one of the best options to augment

GDP growth, reduce poverty, and create more employment (Begum & Abdin, 2015; Mamun et al., 2022).

Although CMSME sector in Bangladesh is viewed as one of the best choices to enhance GDP growth, minimize poverty level, and create more employment (Begum & Abdin, 2015; Mamun et al., 2022), this sector faces various difficulties for business start-up, facilitating investments, supporting business operations and ensuring growth potential. Such difficulties revealed both from the corner of demand and supply side and sometime produces dilemma when demand side considers that the problem exhibit in supply side and vice-versa. Now a days, considering the importance of the sector, many banks and other market players like Non-Banking Financial Institutions (NBFIs), Non-Government Organizations (NGOs), Micro Finance Institutes (MFIs), multipurpose cooperatives, informal money lenders, samities, etc. provide financing to the CMSMEs, to some extent, these are not sufficient compared to meet their financing needs (Mamun et al, 2022). In this context, to increase access to finance in the sector, some other alternative financing options are highly desirable besides existing banking products and mechanisms. Based on these realities, the study attempted to explore the alternative financing options for catering the financial needs of the CMSMEs in Bangladesh.

1.1 Objectives

The main objective of the study is to examine the scope for alternative financing options for CMSMEs' access to finance in Bangladesh. Thus, the specific objectives of the paper are to:

(i) show the CMSME financing scenario in Bangladesh,
(ii) highlight the existing financing products and mechanism of banks,
(iii) find out the CMSME access to finance and finance Gap,
(iv) identify the alternative financing options for CMSME financing.

1.2 Organization of the Study

The contents of this paper are organized into seven sections. Section-1 covers the introduction, background, objectives and methodology of the study; Section-2 reviews the existing policies for CMSME financing with some initiatives. Section-3 shows the CMSME financing scenario in Bangladesh; Section-4 highlights the existing financing products and mechanism of banks. Section-5 presents the CMSME access to finance and finance Gap. Section-6 identify the alternative financing options for CMSME financing and Section-7 recommendations and conclusion.

1.3 Data and Methodology

The study mainly used secondary sources in order to achieve the study objectives. Secondary information has been used to show the CMSME financing scenario in Bangladesh. In this context, the data from Bangladesh Bank SME portal has been considered. The study used SME, MSME and CMSME interchangeably for the purpose of data availability and literature. Moreover, various existing literature, research papers, book chapters have been studied to establish theoretical background and applicable websites have gone through to collect secondary information.

2. Existing Policies for CMSME Financing

In Bangladesh, different stakeholders are working in developing CMSMEs and several initiatives are in place to facilitate the financing requirement of the CMSMEs. Some of the policy initiatives of the Government of Bangladesh and Bangladesh Bank, the central bank of Bangladesh is discussed below:

2.1 Government of Bangladesh

The Ministry of Industry, one of the various government ministries in Bangladesh, implements a variety of efforts to improve the climate in which financial institutions can engage in CMSME financing activities. The Bangladesh government has been continuously concentrating on developing policies since it is aware of how crucial CMSMEs are to the economic prosperity of the nation. Due to this, in 2005, the government created a SME policy, which was later modified in 2019. The goal of the SME sector development program launched by the ministry of industry in 2007 was to assist government initiatives aimed at accelerating the development of the SME sector by enhancing SMEs' access to financing and related services as well as strengthening the regulatory environment for SMEs. The Industrial Policy 2010 has placed a strong emphasis on the development and balanced expansion of the SME sector as part of the government's ongoing efforts to do so. The Bangladesh government is concentrating on expanding employment opportunities in the public and private sectors, creating effective backward and forward linkage industries, advancing domestic technology through research, and fostering skill development in the CMSME sector through various Industrial Policy (2005, 2010, 2016, 2021).

2.2 Bangladesh Bank, The Central Bank

The central bank of Bangladesh, Bangladesh Bank (BB), has taken a very proactive stance in formulating helpful policy decisions and offering advice to banks and non-bank financial organizations on how to finance small businesses. As an illustration, the Bangladesh Bank created the Prudential Regulations for Small firm Financing (2004) and the SME Credit Policies & Programmes (2010) that enable the banking industry to actively participate in small firm financing activities. Additionally, Bangladesh Bank hosts events like road shows and monitors SME centers.

In 2004, 13 prudential requirements were added to the rules governing small business lending. The sources of funding, repayment capacity, cash flow-backed lending, as well as personal guarantees, per-party exposure limits, a bank's or NBFI's overall exposure to the SE sector, a cap on clean facilities, securities, loan documentation, margin requirements, Credit Information Bureau (CIB) clearance, the minimum condition for taking exposure, proper loan utilization, restrictions on facilities to related parties, classification, and provisioning for assets are all covered by these regulations. In addition to these rules, it also stipulated development guidelines, which include policy guidelines (product program guidelines, segregation of duties, credit approval, and credit approval authority), procedural guidelines (approval process, maintenance of negative files), credit administration (credit documentation, disbursement, custodial duties, compliance requirements), risk management (credit risk, third party risk, fraud risk, liquidity and funding risk, political and legal risk), and development guidelines (approval process, maintenance of negative files). This thorough set of recommendations was prepared by the central bank to make it possible for the country's small businesses to continue to be financed by the formal financial institutions. A policy-induced barrier to small business financing does not exist, according to our analysis of Bangladesh Bank's policy guidelines.

The ‘SME Credit Policies and Programmes 2010’ are a further policy push for the financial institutions to involve in small business lending and were established by Bangladesh Bank in addition to the prudential regulations of 2004. This document primarily focuses on the steps taken by Bangladesh Bank aimed at development of SME, target for SME credit, area approach method, cluster development policy, priority to the small entrepreneurs, priority to refinance in industry (manufacturing) and service sector, special prearrangement for women entrepreneurs, real women entrepreneurs’ identification, eligibility of the borrower, training programs, methods of monitoring of SME credit, and SME service center.

Finding prospective SME clusters across industries in Bangladesh has been the biggest accomplishment of this policy publication. The financial institution's decision to use the cluster approach and area approach to finance small businesses is greatly aided by this. Additionally, Bangladesh Bank has launched a variety of refinancing options to offer low-cost funds for funding small businesses by financial institutions supported by various foreign organizations including the Asian Development Bank (ADB), IDA, JICA, and so on. Financial institutions have already implemented a variety of steps to make small business borrowing easier, largely at Bangladesh Bank's directive.

3. CMSMEs and Its Financing Scenario in Bangladesh

3.1 CMSME Definition

A number of definitions on CMSME have been found in different research works and still policy makers and researchers have failed to come up with a unanimous definition of it. SME/ CMSME definition varies throughout the world based on the policy initiatives of different countries. SMEs are defined by some countries, based on their number of employees or sales volume; asset size; and capital size. Bangladesh Bank provided the master circular[1] to redefine small enterprises and all financial institutions adopted this definition. As per the circular, the definitions are presented in Table-3.1 and Table-3.2.

Table 3.1: Definition of Cottage, Micro and Small Manufacturing and Service Oriented Businesses

Industry Category	Industry	Criteria for Determining Industry Category	
		Total Fixed Asset Including Replacement Cost Except Land and Building	Number of Employee
Cottage	Manufacturing	Below Tk. 10 lac	Not more than 15 including family members and others
Micro	Manufacturing	From Tk. 10 lac to below Tk.75 lac	From 16 to 30 or less
	Service	Below Tk. 10 lac	Maximum 15
Small	Manufacturing	From Tk. 75 lac to Tk.15 crore	From 31 to 120
	Service	From Tk. 10 lac to below Tk. 2 crore	From 16 to 50
Medium	Manufacturing	Above Tk. 15 crore but not more than Tk. 50 crore	From 121 to 300; Maximum 1000 for RMG/labor intensive industry
	Service	From Tk. 2 crore to Tk. 30 crore	From 51 to 120

Table 3.2: Definition of Micro and Small Trading Enterprise

Category of Trading Businesses	Criteria for Determining Trading Category		
	Total Fixed Asset Including Replacement Cost Except Land and Building	Number of Employee	Volume of Business Turnover/Annual Transaction
Micro	Below Tk. 10 lac	Maximum 15	Maximum Tk. 2 crore
Small	From Tk. 10 lac to Tk. 2 crore	From 16 to 50	Above Tk. 2 crore but not more than Tk. 20 crore

[1] BB, SMESPD, Circular No-2, September 05, 2019

3.2 CMSMEs Financing Scenario in Bangladesh

3.2.1 Status of Total Loan, CMSME, Small and Women-Owned Enterprises: Banking Sector

Status of total loan and loans to CMSME, small enterprises and women-owned enterprises are shown in Table-3.3. Total loan of the banking sector increased during 2016-2020. However, the percentage of CMSME loan to total loan experienced a negative growth, though in absolute amount the picture is not that much gloomy. The CMSME loan in 2020 (BDT 149203.64 crore) was below from previous year where COVID-19 may be one of the key reasons. On the other hand, out of total loans to CMSME, the participation of small enterprises was really very encouraging, both in absolute and relative terms, except 2020. This encouraged small enterprises to grow up with their maximum potentialities.

Table-3.1: Status of Total Loan, CMSME, Small and Women-Owned Enterprises: Banking Sector (BDT in Crore)

Year	Total Loan of Banking Sector	Total of CMSME		Small	
		Amount	% of TL	Amount	% of CMSME
2016	713600	136176.22	19.08	53076.18	38.98
2017	848720	153760.73	18.12	67824.19	44.11
2018	968500	152346.94	15.73	88956.33	58.39
2019	1083680	161216.63	14.88	97854.50	60.69
2020	1175000	149203.64	12.70	85893.86	57.56

Source: SME & Special Programs Department, Bangladesh Bank and Financial Stability Report, 2020, Bangladesh Bank

3.2.2 Banking Sector Exposure to CMSMEs by Urban and Rural

During 2017-2019, loan disbursement to CMSMEs increased, though a decline was observed in 2020. In 2020, about BDT 149 thousand crore loans was disbursed to CMSMEs. The share of rural CMSMEs has been increasing gradually, however, it is still quite low (Table-3.4) that needs to be increased to ensure sustainable development in overall CMSMEs in Bangladesh.

Table 3.2: Status of Banking Sector to CMSMEs by Urban and Rural (BDT in Crore)

Year	CMSMEs Disbursements of Banking Sector	Share of CMSEs (%)	Share of Urban CMSEs (%)	Share of Rural CMSEs (%)
2017	153760.73	58.7	82.8	17.2
2018	158132.43	64.6	82.1	17.9
2019	161216.64	71.2	81.3	18.7
2020	149203.64	71.0	77.7	22.3
2021*	82855.99	73.5	79.2	20.8

Source: SME & Special Programs Department, Bangladesh Bank.
Note: *up to June 30, 2021

3.2.3 Exposure of Different Group of Banks to CMSMEs

Loan size and motive behind the disbursed amount by bank-groups are vital for contribution to CMSMEs. Though PCBs, excluding IBs, enjoyed the highest portion of cumulative disbursement (54.9 percent) by all bank groups, it put its least concentration towards lending to rural CMSMEs (16.6 percent) in 2020 and the picture is almost identical as on June 30, 2021 (Table-3.3). Interestingly, the reverse picture has been found with SBs in 2020 when they enjoyed the highest share of total rural CMSMEs (78.9 percent), despite having lowest percentage of cumulative disbursement (1.6 percent) compared to other bank groups.

Table 3.3: CMSMEs Loan Disbursement by Group of Banks (in percentage)

Group of Banks	As of December 31, 2020		As of June 30, 2021	
	Disbursement	Share of Rural CMSMEs	Disbursement	Share of Rural CMSMEs
FCBs	1.77	41.52	1.15	27.90
IBs	33.94	27.44	33.25	27.56
PCBs excluding IBs	54.86	16.58	56.27	15.03
SBs	1.63	78.93	2.18	59.58
SOCBs	7.81	25.37	8.16	19.02
Total Exposure to CMSMEs by Banks	**100**	**100**	**100**	**100**

Source: SME & Special Programs Department, Bangladesh Bank

3.2.4 Alternative Delivery Channels (ADC) to Finance CMSMEs in Bangladesh

At the end July 2021, there were 1,142,395 mobile banking agents and 13,086 agent banking agents (Table-3.4). Number of mobile banking and agent banking customers were 10,27,14,548 and 1,21,92,947 respectively. These alternative delivery channels and their expansion may by supportive for CMSEs financing.

Table 3.4: Status of Alternative Delivery Channels to Finance CMSMEs in Bangladesh (up to July, 2021)

Sl.	Particulars	Total
1.	Credit Card	1777677
2.	Debit Card	23620886
3.	Prepaid Card	954673
4.	Total Card	26353236
5.	Internet Banking Account	3713188
6.	Mobile Banking Agents	1142395
7.	Mobile Banking Customers	102714548
8.	Agent Banking Agents	13086
9.	Agent Banking Customers	12192947
10.	ATMs	12367
11.	POSTs	82449

Source: Economic Trend, Bangladesh Bank

3.2.5 Status of Agent Banking Operations

At the end of June 2021, 28 banks had licenses for agent banking and all of them started their operations. A total of 12,912 agents had 17,145 outlets having 1,22,05,358 accounts (Table 3.5). Previously, banks were mobilizing deposits through the agents' outlets; however, they are also financing through agents now-a-days. More than 3 thousand crore loans were disbursed by the end of June 2021. Considering share of accounts in agent banking services, the top 5 banks are BAL (35.8%), DBBL (33.0%), IBBL (15.6%), AAIBL (3.4%) and Agrani Bank Ltd. (2.7%). List of banks providing MFS, along with their products is presented in Appendix V, and the status of MFIs is shown in Appendix-VI.

Table 3.5: Overview of Agent Banking Activities in Bangladesh

Particulars	June 2020	June 2021	Change (%)
No. of Banks with License	28	28	0
No. of Banks in Agent Banking	23	28	5
No. of Agents	8,764	12,912	47.33
No. of Outlets	12,449	17,145	37.72
No. of Accounts	73,58,190	1,22,05,358	65.87
No. of Female Accounts	34,10,270	56,75,329	66.42
Number of Rural Accounts	63,77,457	1,05,39,163	65.26
Amount of Deposits (BDT crore)	10,220.21	20,379.28	99.40
Amount of Loan Disbursed (BDT crore)	720.54	3,186.29	342.21
Amount of Inward Remittance (BDT crore)	26,650.59	67,954.05	154.98

Source: Quarterly Report on Agent Banking, April-June 2021, BB

4. CMSME Financing: Existing Products and Financing Mechanism of Financial Intuitions

There is no denying fact that for financial and economic development of a country it is the basic requirements to ensure and improve CMSME access to finance. In Bangladesh, the estimated financing gap for CMSME sector is around BDT 237 billion (US$2.8 billion). Bangladesh Ranked 159th out of 190 countries by the 2018 World Bank Group's Doing Business survey for the 'Getting Credit' indicator. For encouraging the effective financial inclusion of this sector, it is important to address the weaknesses of financial infrastructure. Although banks and non-banks financial institutions are serving CMSE sector with different products and initiatives, these are not sufficient to fulfill the desired need of the sector. Various lending products which are practicing by banks and NBFIs in Bangladesh are shown in Table-4.1:

Table 4.1: CMSME Loan Products - Used by Banks and NBFIs

Sl.	Products (Mostly Used)	Sl.	Products (Limited Used)
1	Cash Credit (CC)	1	Distributor Financing (New)
2	Overdraft (OD)	2	Supply Chain Financing (New)
3	OD (Work Order)	3	Factoring
4	OD (Pay order)	4	Reverse Factoring
5	Short Term Loan (STL)	5	Start Up Financing
6	Time Loan and Term Loan	6	Equity Financing
7	Lease Financing		
8	Bank Guarantee		
9	Letter of credit		
10	Loan against Trust Receipt (LTR)		
11	Inland Documentary Bills Purchase (IDBP)		

For extensive coverage of financial inclusion, Bangladesh Bank has already launched Credit Guarantee Scheme against Financing of CMSME customers. Similarly, commercial bank and other financial institutions also initiate different CMSME-focused lending scheme for the betterment of the sector. Besides, there are pre-bank financing options already has emerged to care young and dynamic small firms.

Financing Mechanism of Financial Intuitions:

Generally commercial banks of Bangladesh extend credit facilities to CMSMEs in the following forms:

1) Term loan/Lease finance/Equity Finance for procurement of fixed assets such as machinery, equipment, furniture & fixture and for civil construction of factory and office building and for business expansion.

2) Other short-term products such as overdraft (OD), Cash Credit (CC), Short-term Loan (STL), Factoring, etc. are used for working capital requirement of the business.

Different banks/financial institutions use their own mechanism to approach CMSME customers for marketing their products. Most of the banks and financial institutions deploy permanent and contractual sales team who are engaged to market CMSE products. They usually go to the customers or customers' business places directly to know their financing needs. Considering their business size, nature of business, turnover of business, collateral and financial capacity of the customers, they offer them for financing.

Some banks/financial institution also use their agent banking in addition sales peoples for selling their CMSE products. Bangladesh Bank has awarded around 28 agent banking licenses with the aim to provide a secure alternative delivery channel of banking services to the underprivileged and under-served population who live in remote locations. The aim is to provide a secure alternative delivery channel of banking services to the underprivileged, under-served population who live in remote locations that are beyond the reach of the traditional banking network. Twenty-four banks have rolled out the service as of September last year. The banks with a notable presence include Bank Asia Ltd., Islami Bank Bangladesh Ltd., Dutch-Bangla Bank Ltd., BRAC Bank Ltd., City Bank Ltd., Mutual Trust Bank Ltd., Al-Arafah Islarni Bank Ltd., Agrani Bank Ltd., NRB Commercial Bank Ltd., and Modhumoti Bank Ltd. Loan disbursement through the agent banking window rose 444 per cent to Tk 2,659 crore in FY21, which was Tk 488 crore in FY20 (Bangladesh Bank, 2021).

BRAC Bank Ltd. ranked top in loan disbursement comprising 62.61 % of the total share. Bank Asia, City Bank, Dutch-Bangla Bank, and Mutual Trust Bank ranked 2nd, 3rd, 4th, and 5th with 22.05%, 12.25%, 1.85%, and 0.49% respectively. Some banks/financial institution use branch relationship officers to approach to CMSME customers for marketing their products either to go their business place or at their bank premises. They also use cross selling techniques to sell their CMSME products to the customers.

Banks and FIs also finance in the cluster CMSMEs. A cluster may be defined as a local agglomeration of enterprises (mainly CMSMEs) which are producing and selling a range of related and complementary products/services. For example, leather and leather products manufacturing enterprises at Hazaribag of Dhaka is treated as the cluster of leather goods. Clusters are identified considering various factors such as-geographical area, product or service etc. Banks or NBFis extend credit facilities to CMSME customers under cluster financing backed by group collateral/guarantee.

Digital Platform for MSMEs' Working Capital: Supply Chain Finance (SCF)

Bangladesh's first digital factoring marketplace-TREDX began its journey in 31 July 2022 to leverage technology in delivering supply chain financing solutions to millions of SMEs. Bangladesh Bank issued guidelines for digital factoring in January 2022. Under the guidelines, the central bank would allow an entity to launch a digital platform for local factoring or receivable financing for a period of one year on a pilot basis.

The MSMEs suffer to get working capital finance as they receive payments against supply of goods from large corporate houses after a certain period of time. Sometimes arranging working capital becomes difficult for them until the payments against the supply are received. Now, the MSMEs which are supplying goods to the corporate would get finance from the banks and non-bank financial institutions against the invoices of the letters.

The proposed system would allow MSMEs to upload the documents of trade receivables on the digital platform. Then, a notification would be sent to the corporate house for the verification of the trade receivable documents. Upon verification of the corporates, the documents would be visible to the banks and NBFIs for bids to purchase the trade receivable. In the bidding, the banks, for instance, would bid against a trade receivable worth Tk 1 lakh that would be matured in three months. It any bank wins the bid at Tk 99,000, the bank would pay the amount to the supplier MSME within one day.

Afterwards, the winner bank or NBFI would receive the money against the trade receivable from the corporate house on maturity after three months. In case of failure, the recourse will be on the approving corporate.

During the trial phase, single investor or financier can invest maximum amount Tk. 5 crore to a single corporate buyer. A single investor or financier can invest up to Tk. 20 crore at any point of time and a single factoring transaction can be maximum Tk. 25 lakh. Besides, a single MSME seller can acquire Tk. one crore of investment at any point of time. The platform provider will have to provide a bank guarantee of Tk. 1 crore in favor of BB's payment system department general manager for the whole duration of the piloting phase in order to cover any unforeseen losses that may arise from the operation of the platform to its participants.

In this platform, the Government of a country can take part so that any suppliers who supply to the government may get access to the low-cost funds. The central bank now is thinking to start secondary market for facilitating factoring market place.

5. CMSME Access to Finance: Existing Scenario and Finance Gap

5.1 Need for Financial Resources for CMSMEs Growth and Development

Irrespective of the size, all firms, whether large or small, require financial resources for fulfilling business start-up needs, funding investment and to facilitate operation, expansion, and growth potential (Bottazzi, Secchi & Tamagni, 2014). According to the theory of Resource Based View, financial resources are the most noteworthy resources for growth and expansion of any firm. These resources include the ability of the firm to generate internal funds and the capacity to borrow from external sources, as well as other financing mechanisms that include cash balances, supplier credit, advance receipts, venture capital, leasing, factoring, and others. In order to foster economic growth and development, it is badly needed to ensure the profitability and growth of the small and medium enterprises sector and access to finance is the precondition (Abdulsaleh & Worthington, 2013).

Access to finance has some implications on the growth or performance of CMSMEs in different aspects. Some studies highlight that the availability of finance is the prime factor for the success and growth of MSMEs (Osei-Assibey, 2015; Rajamani et al., 2022). Khan (2022) identifies access to finance as the main barrier for growth of SMEs. Some studies conclude that financing constraints have negative influence on firm growth (Ayyagari et al., 2008; Du & Nguyen, 2021). Another study in Eastern Europe reveals the interesting findings that firms with access to formal financial institutions exhibit 9% higher employment growth and 36% higher sales growth (The World Bank, 2009). The inability of access to credit is the significant bottlenecks for CMSMEs and this financing problem hinders their normal business operations that result in the lack of potentiality for future growth. Hence, it can be concluded that financial resource is one of the major inputs for any business and undeniably for CMSMEs all over the world.

5.2 CMSMEs Lack Greater Access to Finance in the Formal Financial Sector

Although different theories and approaches describe the financial behavior of CMSME differently but the general agreement suggests that all over the world, small firms face constraints of financial resources and the internal and external financing has great implication on their growth and performance (Guariglia, 2008). Their access to formal credit is not easier compared to the large enterprises. Most of the CMSMEs in the world and specially in Bangladesh are family-based and lack proper financing for their start- up and upholding the operations as they mostly relied on their own capital. CMSMEs are generally financed by both from internal and external sources (Osei-Assibey, 2013; Muhumuza, 2019). Initially, they highly depend on their own sources like personal savings, existing capital and reserves or retained earnings and subsequently seek external sources like financial institutions, venture capital, Non-Government Organizations (NGOs), government loan or subsidies, grants from international development agencies and other funding sources (Mac an Bhaird, 201 0).

Considering the contribution of CMSMEs growth and job creation, governments of both developed and developing countries are trying to have their better access to finance. However, for CMSMEs, it is quite hard to have better access to formal financial sources related to large firms (Blancher et al., 2019; Mulaga, 2013). CMSME all over the world face limited access to external sources which is the noteworthy constraint for their business operations and growth (Gichuki, Njeru & Tirimba, 2014; Osei-Assibey, 2015; Page & Soderbom, 2015). This higher obstacle to external financing can be treated as the sluggish growth for MSMEs. Therefore, the literature suggests that CMSMEs finance a tiny portion of their funding requirement from external sources.

Due to the size and small amount requirement, it is also very difficult for CMSMEs to have access to formal security or equity markets. As a result, small firms rely heavily on their own financial sources and subsequently on commercial banks and other formal financial institutions as being the main source. Bank finance is linked with faster CMSME growth, while informal finance is not. However, considering the perceived high risk and large monitoring and administrative cost involvement, most of the formal financial institutions do not find this segment as a good investment opportunity and even when they decide to invest, they impose higher fees and interest rates related to larger firms. Although this is true in most of the cases, recently, a few of them are coming forward with a good number of initiatives for serving MSMEs. However, these are not satisfactory to fulfill the greater demand of CMSMEs, especially in the rural areas where most of the clusters are concentrated, due to lack of adequate banking network and alternative delivery channels. Even if there are some channels, MSME have less power to negotiate with them. These consequences always constrain CMSMEs to have access to formal financial institutions and create dependency on informal financial sector which adversely affect their growth or performance.

5.3 Some Empirical Evidences of CMSME Access to Finance in Bangladesh

It is very general that financial constraints affect CMSME most adversely than large firms and therefore sound financial system of a country can relax these impediments which is highly beneficial for CMSMEs. In Bangladesh, the financial system characterizes as the bank-based system. It is therefore clear that financial inclusion would hardly ever been successful unless banking sector participate strongly. However, access to finance into commercial banks is not yet satisfactory from the last two decade. Choudhury & Raihan (2000) studied on SME access to credit and found that, "the access to formal credit is not available at all to 50.53 percent of the stakeholders. Only 35.79 percent of SME stakeholders enjoy unrestricted access to the formal credit. The rest (13.68 percent) of them have restricted access to the formal credit". Subsequently, after a decade Mamun et al. (2013) conducted another survey among small enterprises and showed that about 60 percent of sampled enterprises got access into commercial banks and other financial institutions. Enterprises who got loan, only 46 percent of them got the full amount of their demand and other 54 percent firms got partial access.

Research conducted by Mamun et al. (2022) specially in the rural and suburban areas where interviewees were from both cluster and non-cluster CMSEs. They found that despite having borrowing need for 73 percent rural enterprises only 33.2 percent of them got access into banks. It may be due to the absence of banking network in those areas or easy access to loan from other sources like NBFIs, NGO-MFIs, money lenders, multi-purpose cooperatives, samities, and others. They also found that the average debt to equity ratio of the sampled CMSEs was 33.5 percent. From their study it is also evident that 86.6 percent sampled CMSEs obtained loans from sources other than the banks and out of them 66 percent obtained loan from NGO-MFIs, followed by money lenders, multipurpose cooperatives, NBFIs and samities. It is notably that the average cost of borrowing from those informal sources was 16.6 percent.

In another study Mamun et al. (2022) revealed that the average debt to equity ratio of the sampled CMSEs was 39 percent. Majority of the banks' loan (79 percent) used by the respondents were mainly for working capital requirement, while only 21 percent of the funds were used in the form of term loan. More than half of the respondents were not satisfied about the terms and conditions of banking products for CMSEs. However, 73.2 percent of them were willing to take loans in future from banks. A majority of the sampled firms (68 percent) opined that they were not pleased with the current features (EMI, grace period, maturity and other terms and conditions) of banks' lending products. Therefore, they require unique products from banks based on their business characteristics.

Their study also focused on the supply side specially for banks. Based on the responses received from the sampled banks (31), the average products developed by the banks for CMSME sector was 7.22 which ranged from 0 to 18. Although around 62 percent of banks claimed that they have developed some cluster specific products based on the CMSEs' characteristics, the numbers of products are very few and the product features are hard to be differentiated from their existing product basket. The vast majority (90.8 percent) of the sampled banks reported that the documentation, amount of loan, interest rate, and other charges may differ, based on CMSE business characteristics. In terms of CMSE loan demand, 32.3 % banks stated that they get demand from the CMSEs where they do not have specific products to serve, while 58.1% banks have financing products for the start-up business and unbanked CMSEs. Around 91% banks said that the tailor-made products could be beneficial both for the CMSEs as well as the for banks. However, only 35.9 percent banks had different initiatives to identify the CMSEs' requirement for developing new products.

5.4 CMSME Finance Gap

Despite having huge potential, CMSME sector generally face severe financial constraints all over the world (Islam et al., 2014; Mamun, et al., 2022) including Bangladesh (Chowdhury, Azam, and Islam, 2013; Khatun, Amanullah & Khulna, 2021) as this sector has much limited access to formal institutions as a source of finance (Islam, Yousuf, and Rahman 2014). According to the estimate of World Bank, in developing countries 40 percent of formal MSMEs or about 65 million of firms have financing gap of $5.2 trillion every year, which is equal to 1.4 times of the worldwide MSME lending (World Bank, 2018). By region, Asia and the Pacific recorded the uppermost financing gap in the world, accounting for 57 per cent of the total financing gap, or US$ 2.7 trillion, underlining the vast unexploited potential of the region (ESCAP, 2021).

According to the International Finance Corporation (2017) estimation the microenterprise finance gap in developing countries was $718.8 billion, and the SME finance gap at $4.5 trillion in 2017. This unmet demand represents 8 I percent of the potential demand from microenterprises ($882 billion) and from SMEs it was 56 percent of the potential demand ($8. I trillion). This report also showed that the potential MSME demand was the highest in the East Asia and Pacific region with almost 58 percent of the total global potential demand.

In Bangladesh, it is estimated that there are 7.8 million registered MSMEs and a greater proportion of them is microenterprises (88 percent) while only 12 percent are SMEs (SME Finance Forum, 2018). Although around 50 percent of the total populations are women, the ownership of WMSME is only 5 percent among the enterprises. Singh et al. (2016) found that in 2014-15, a $0.77 billion financing gap existed for women-owned SMEs in Bangladesh. This amount corresponds to an unmet financing demand for 60.2 percent of women-owned SMEs. A recent study of Madan (2020) reported that the estimated demand for MSME finance in Bangladesh is US$ 57 billion. But unfortunately, only 33 percent (US$ 19 billion) of this demand is currently met resulting another 67 percent finance gap in the sector. The portion of SMEs in this gap was expressively higher at 93 percent or US$ 36 billion. The study also reported that the informal demand for finance was 52 percent of formal demand or US$ 29 billion. Microenterprises faces more of a gap with 86 percent (US$ 2.8 billion) unmet demand. On the other hand, within SMEs, although this is comparatively lower, but still high at 67 percent (US$ 36 billion). The women-owned small and medium enterprises gap is higher at US$ 2.4 billion (96 percent) and for male-owned SMEs it was similar with 95% facing a finance gap.

The large financing gap and the credit constraints may jeopardize the potential grow of CMSMEs in Bangladesh Although Financial institutions are coming forward to finance the sector, commercial banks credit to MSMEs steadily increased at a CAGR of 13 percent from 2010 to 2020 and the MSME credit market remains small at 8% of GDP, and is concentrated on urban areas (around 80 percent) (ADB, 2021).

6. Alternative Financing Options

6.1 What is Alternative Financing?

Financial inclusion entails ensuring that businesses have access to useful and affordable financial products that suit their needs responsibly and sustainably. To accomplish these goals, banks and other financial institutions create a variety of products and financial mechanism for CMSMEs globally. Out of these, alternative financing solutions are now more widely used to ensure that CMSMEs have more access to financing. Therefore, alternative financing refers to financing that is accessible outside the conventional large banks. It provides entrepreneurs with a wider range of options and more flexibility when selecting financial services solutions. Alternative financing categorically refers to a class of financing solutions, such as debt and venture capital that fill in holes in traditional financial markets.

This development is a part of a larger push toward financial inclusion, in which more people have access to established banking infrastructure. How, for instance, can financial institutions assist those with spotty credit records more effectively? What about those who cannot obtain conventional mortgages? Or businesses that are not eligible for conventional bank loans? According to Morgan Stanley, the emergence of alternative financing structures is a result of a market opportunity for private investors. This development is a part of a larger drive toward financial inclusion, in which more people have access to established banking infrastructure. How, for instance, can financial institutions assist those with inexact credit records more effectively? What about those who don’t meet the requirements for conventional mortgages? Or businesses that are not eligible for conventional bank loans? According to Morgan Stanley, the emergence of alternative financing structures is a result of a market opportunity for private investors.

6.2 Alternative Financing Products and Approaches

6.2.1 Factoring

A company might use factoring to obtain quick financing or cash based on the expected future income associated with a specific amount owed on an account receivable or a business invoice. Accounts receivable are sums of money that customers owe the business for purchases they made on credit. A factor is a mediator, similar to a bank, which buys companies' receivables in order to give those cash or capital. In essence, a factor is a source of finance that consents to pay the business the amount of an invoice less a discount for commission and other costs. Therefore, by selling its accounts receivable at a discount to a specialized institution (bank or FI), CMSME can obtain funding through factoring. By selling their receivables in exchange for a cash infusion from the factoring provider, CMSMEs can better meet their short-term cash needs through factoring. With volumes substantially increasing over the last ten years, particularly in emerging nations, factoring has gained popularity and acceptance as a viable alternative for CMSMEs struggling with cash flow.

6.2.2 Purchase Order Finance

Purchase order financing, commonly referred to as 'PO Finance', offers money to companies that have purchase orders so they may pay their suppliers and manage their cash flow. A purchase order is a document that a buyer sends to a seller as an order. It constitutes an agreement between the buyer and the seller regarding the costs and amounts of a good or service once it has been acknowledged by the seller. Even if it's a good sign for a company, there are two main reasons why it could produce problems with cash flow. First off, the company needs a sizable sum of money to pay its suppliers for producing the goods for the order. This payment is typically necessary before suppliers can begin producing the goods. Second, the final consumer typically gets extended payment terms for the item they are receiving, in some situations it can take up to 120 days. To complete this order, the company needs to have a sizable amount of cash on hand to cover production costs until the buyer pays. Therefore, purchase order financing is a viable and well-liked choice for companies looking for a quick and efficient solution to finance their purchase orders. Due to the strength of the purchase order, a firm secures financing for inputs to fulfill the order in exchange for agreed-upon fees and service costs.

6.2.3 Warehouse Receipt Finance

A financial institution lends money to a business, manufacturer, or process or as part of warehouse finance, a type of inventory financing. Existing items, commodities, or inventories are moved to a warehouse and utilized as security for the loan. Smaller privately-owned companies that lack access to alternative choices, especially those in the commodities-related enterprises, are most likely to use warehouse finance. The quantity and quality of a specific commodity being stored in a recognized facility are guaranteed by a warehouse receipt, a sort of documentation. Warehouse receipts are crucial because they show that the product is at the warehouse and that all required paperwork has been verified.
In warehouse receipt finance, the goods stored at a licensed warehouse ser ve as collateral for the loan, which must be repaid before the commodities may be released.

6.2.4 Leasing

In leasing, a business acquires the right to utilize machinery and equipment for a predetermined timeframe in exchange for a rental price. A healthy leasing market is a crucial source of funding for the development of the nation's CMSMEs. The absence of assets that can be used as collateral for bank loans places unique restrictions on these businesses. Numerous CMSMEs in our country raise money from informal sources, which is too expensive for investment funding. For CMSMEs, leasing has several benefits over other types of financing, such as reduced down payments, credit availability, easier security and paperwork requirements, quicker loan approval, tax benefits, etc. Leasing helps to promote small businesses in developing nations, this helps to fight poverty by creating jobs and revenue. Furthermore, by introducing CMSMEs to established financial markets and creating demand from leasing businesses for capital market funding, a strong leasing industry has the ability to help to the growth of capital markets. For their expansion, CMSMEs need better access to financing, particularly for the purchase of capital equipment and the implementation of new technologies in operations. However, CMSMEs typically lack sufficient capitalization, trustworthy and audited credit records, and extra assets for security, which restricts their access to financing. As a result, the lessor now has the chance to seize the market for its potential products and services. Furthermore, leasing can be a way for CMSMEs to get short- to medium-term funding for the equipment they need to grow their business.

6.2.5 Securitization

Securitization is the process of combining different types of debt, such as credit card debt, auto loans, residential mortgages, and commercial mortgages, into a single pooled financial instrument. This collection of bundled assets is then sold to investors by the bank. Through securitization, a bank pools CMSME loans into a portfolio and sells that portfolio to investors in the capital markets, lowering its risk and boosting liquidity. Based on the companies' credit ratings, the receivables (trade credit) are bundled as securitized assets and function as commercial paper. This will enable CMSMEs in lowering their working capital expenditure. Factoring and letter of credit processes are quite similar to securitization, although securitization is more cost-effective. This will enable CMSMEs to invest less in operating capital. Although more cost-effective, securitization is very similar to the letter of credit and factoring processes. A mortgage-backed security (MBS), a class of asset-backed security that is secured by a number of mortgages, is a common example of securitization.

SMEs in OECD nations and emerging economies frequently employ asset-based financing to meet their working capital needs, facilitate local and international trade, and, in some cases, for investment objectives. Particularly in Europe, the frequency of these instruments for SMEs is comparable to that of traditional bank lending. Moreover, despite supply-side effects of the global financial crisis, asset-based finance has increased significantly over the past ten years.

6.2.6 Crowdfunding

In crowdfunding, a business solicits financial support from several people in a manner similar to social marketing (usually by using the Internet to solicit gifts, equity, or debt). It is an innovative means of raising money for various new ventures, allowing the founders of for-profit cultural or social projects to ask for investment from a large number of people, frequently in exchange for future products or equity. Crowd funding is a method of obtaining outside funding from a big audience as opposed to a limited number of specialist investors (such as banks, business angels, or venture capitalists), where each person contributes a small portion of the funding needed. This sort of funding can help CMSMEs overcome the challenges including information asymmetry and a lack of collateral.

Fundraisers can use online platforms to gather money from a sizable audience. Startups and expanding enterprises most frequently use crowdfunding as a means of obtaining alternative capital. It is a creative method of obtaining finance for new endeavors, enterprises, or concepts. Creating a community around your offering can also be accomplished in this way. One can access new customers and acquire helpful industry information by leveraging the power of the internet community. Entrepreneurs, businesspeople, and organizations—particularly small and medium-sized businesses—are the target audience for this investment. If the fundraising campaign is successful, crowdfunding platforms typically charge fundraisers a fee. Platforms for crowdfunding are anticipated to offer a safe and simple service in exchange. A funding strategy that is all-or-nothing is used by many platforms. This implies that if you meet your goal, you will receive the money, and if not, everyone will receive their money back with no repercussions or financial loss.

Importance of Crowd-funding for CMSMEs' Financing

- Because the entrepreneur and investor communicate directly over the internet, there is no need for a funding intermediary like a bank.

- Crowdfunding is a crucial tool for disseminating information to a big audience in addition to being a means of raising money.
- Crowd-funding raises project awareness.
- Crowd-funding aids in gaining recognition, which could aid in future commercialization.

Types of Crowd-funding

The many types of crowdsourcing are described below.

Peer-to-peer Lending: A group of people loans money to a business on the condition that they will be paid back with interest. It is fairly comparable to regular bank borrowing, with the exception that you borrow from several investors instead.

Equity Crowdfunding: Sale of a portion of a company to several investors in exchange for capital. The concept is comparable to the purchase or sale of common stock on a stock exchange or to a venture capitalist.

Rewards-based Crowdfunding: A non-financial reward, such as goods or services, is typically expected in compensation for a person's contribution when they donate to a cause or business.

Donation-based Crowdfunding: People make small donations to help a specific charitable project reach its bigger financing goal while receiving no in return.

Profit-sharing/ Revenue-sharing: Sharing future profits or revenues with the public in exchange for immediate finance is a possibility for businesses.

Debt-securities Crowdfunding: Crowdfunding for debt securities involves people buying a bond or other financial product that the business has issued.

Hybrid Models: Give businesses the chance to blend components of various types of crowdsourcing.

6.2.7 Risk-sharing Facilities (RSFs)

The majority of nations have created risk-sharing facilities (RSFs) to help commercial banks de-risk their lending decisions and partially cover the risks associated with lending to CMSMEs. By taking on a share of the lender's losses on loans made to CMSMEs through the payment of a fee, an RSF reduces the risk of third-party credit risk for the lenders. By sharing risks with financial intermediaries and supporting the growth of suitable market segment lending and risk management technologies, a well-functioning RSF may support CMSME funding in a way that is market-friendly. Additionally, it can aid in easing CMSMEs' collateral restrictions. A RSF may also be difficult to design and implement, as well as vulnerable to moral hazard if it operates in a setting with poor governance. With regards to execution, there are numerous design alternatives. These consist of the guarantee features, operating procedures, and management structure. Weak governance can lead to resource misallocation and market distortions, much like other state interventionist tools.

6.2.8 Market Place (peer-to-peer) Lending

A full stack disruptor, this affects the entire lending value chain. Through online marketplaces that pair lenders (savers, investors) with borrowers, it offers credit to CMSMEs (and individuals). These loans have a number of benefits, including quick processing times, ease of use, and no requirement for collateral. If the low cost of the structures is passed due to their technological foundation, they may also lead to lower interest rates. As a result, there is substantially less demand for physical infrastructure and personnel. Additionally, the cost of the regulatory environment is far lower in terms of capital adequacy, reserve needs, and other factors.

There are currently marketplace loans for MSMEs in 60–80 countries, according to estimates. African countries including Kenya, Ghana, Tanzania, and Zambia are seeing an increase in market lending. SME's are now using the P2P lending or market-place lending platform to meet their needs for short-term loans with reduced interest rates. Fintech firms facilitate this peer-to-peer lending. By providing loans themselves and linking SMEs to banks and financial institutions, fintech companies are enhancing SMEs' access to capital.

6.2.9 Revenue-based Financing

With revenue-based financing, businesses can raise capital by promising a portion of continuous future revenues in return for the capital. Up until a specific multiple of the initial investment has been repaid, investors will get a piece of revenues at a pre-determined percentage. Cash advances are made against recurring monthly or yearly revenue (MRR or ARR) under a type of business credit known as revenue finance. Founders can use revenue finance to get cash up front, cut the expense of handling cash, and put money towards expansion plans. Software as a Service (SaaS), e-commerce, and subscription-based businesses often respond well to this kind of financing.

6.2.10 Mezzanine Finance

Mezzanine finance is essentially a form of debt capital with the ability for the lender to convert to ownership or equity interest in the firm in the event that the loan is not repaid on schedule and in full. It typically has a lower priority than financing provided by senior lenders like banks and venture capital firms. Mezzanine finance may be a source of funding, but because they lack the necessary negotiation expertise for complex deals, banks and parent companies should step up to support SMEs and be well-qualified with sufficient legal protections. Several financing instruments are combined and sold as a single unit to an investor by a mezzanine finance business.

6.2.11 Venture Capital

A venture capital operation includes affluent individuals investing equity in businesses that are thought to have great promise. Since the investor takes on a lot of risk, investment projects typically have relatively high internal rates of return (between 20 and 25 percent). In addition to financing the businesses, VC firms also offer support in these areas. They work to make the SME profitable since they own a portion of it and will benefit from their share of the profits. As it provides the cash needed by the risky investee firm and enjoys ownership rather than being a creditor in exchange, VC firms create a win-win situation for both the investee firm and the VC firm. Due to VC firms' participation in profits, investee companies are not affected by bank financing's tight installment payment schedule. Additionally, they will sell the ownership in accordance with the contract, either to the investee company or to a third party, so as not to place the investee company under undue strain.

6.2.12 Business Angels

An alternative to venture financing is business angels. They often include a wealthy individual who, in exchange for company shares, invests equity capital in start-up businesses (without any family link). A private individual, frequently with a high net worth and typically with business experience, is referred to as a business angel when they directly invest a portion of their assets in start-up and expanding private companies. Business angels can make individual investments or participate in syndicates, where one angel often assumes the leadership position. In addition to funding, angel investors offer the entrepreneur contacts, company management expertise, and talents. Angel investors with experience are aware that a return on their investment could take some time. As a result, they may serve as a reliable supply of 'smart and patient' financing. Angel investors in business are crucial to the economy. After family and friends, they are frequently the second-largest source of outside capital for newly founded businesses in many nations.

6.2.13 Finance from Grant

A grant is an award, normally monetary, bestowed by one entity (often a business, foundation, or government) on a person or organization in order to help them achieve a goal or reward good work. In most cases, grants are essentially gifting that don't need to be repaid. The majority of business owners employ a variety of strategies to raise money for their small enterprises, including personal savings. There are two basic types of outside funding sources: Debt finance, which is money that must be repaid, typically with interest, and equity financing, which is money given in exchange for a portion of ownership and potential future earnings. Grants and subsidies, on the other hand, are financial aid that is not required to be paid back and may be provided by governmental bodies, charitable institutions, or for-profit businesses.

6.2.14 Small Finance Banks (SFBs)

Small business units, small and marginal farmers, micro and small industries, and unorganized sector organizations are just a few examples of the unserved and underserved groups that the small finance bank will primarily assist by accepting deposits and providing loans to. By providing basic banking services, this bank's primary goal is to ensure financial inclusion.

6.2.15 Capital Market

All major countries obstacle for SMEs to overcome is access to financing, and practically all major countries' capital markets have recognized the necessity for a separate exchange for the SME segment. Due to strict processes and minimum paid-up capital requirements, the majority of SMEs are often not even eligible to file for listing on Bangladesh's exchange marketplaces. On September 30, 2021, trading on the SME board of the Dhaka Stock Exchange (DSE) began in Bangladesh. On that day, there was only Tk 2520 worth of transaction on the board. Nine small cap companies are currently listed on the SME board of the top exchange. These businesses include: Krishibid Feed, Nialco Alloys, Mamun Agro Products, Mostafa Metal Industries, Apex Weaving and Finishing Mills, Oryza Agro Industries, Master feed Agrotec, Wonderland Toys, and Bengal Biscuits. Achia Sea Foods and Star Adhesive's qualified investor offers (QIO) have just been authorized by the Bangladesh Securities and Exchange Commission (BSEC), and these two businesses are now awaiting listing with the SME board.

Two specific SME exchanges were launched in India in 2012 in response to the prime minister's Task Force's suggestions. In 2001, the SME Board was established in the Philippines under the Philippine Stock Exchange.

While there isn't a specific SME Exchange in Malaysia or Thailand, there are markets that SMEs can access. The Hanoi Stock Exchange in Vietnam provides a trading venue called UPCoM that was created in 2009 and has no listing fees for unlisted public businesses. Although there is no SME capital market in Indonesia, SMEs are given preferential access to the Indonesia Stock Exchange market.

6.3 Some Key Considerations for Developing Alternative Financing Options

- Clear and comprehensive regulations covering all kinds of access to credit available to CMSEs
- Establishing sound, thorough, enforceable, and fair legislative framework
- Market conduct/client protection
- A vital component of credit granting is an effective and comprehensive credit information system
- One of the main causes of the limited utilization of some of the available alternative mechanisms is the level of awareness.
- Guaranteeing data protection and privacy rights through proper legislative frameworks would help to limit the hazards brought on by the rising digitalization of CMSEs.
- Coordination with other ministries and regulatory agencies.
- Authorities should make sure grants (from governments and other sources) are administered in a way that benefits the target market
- The capital market is developed in a way that is CMSE-friendly.

7. Recommendations and Conclusion

One, Factoring, leasing, warehouse receipt finance and purchase order finance are some of the important products for the CMSE sector. In Bangladesh we use these products in a very limited scale. We may use such products extensively. In this regard, to minimize the risk of future payment, there could be a strong data base of the businesses including their trading history and past payment behavior so that lenders have interest to use these products.

Two, Securitization is more popular financing mechanism in most of the developed countries. In Bangladesh we lack diversified funding markets and only the largest firms are able to directly access in the capital markets, therefore, credit supply to CMSMEs is heavily depend on bank lending. In this backdrop, developing CMSME securitization as the alternative funding sources would ensure lending to viable smaller firms. Through securitization, a bank may pool CMSME loans into a portfolio and then sells that portfolio to various investors in the capital markets which will lower its risk and will boost the liquidity. Bank may use securitization like a commercial paper through bundling the receivables as securitized assets. To address the potential risk and challenges, a well-functioning CMSME securitization market would be required. To facilitate this market, a wide-ranging, multi-faceted strategy is essential which includes regulatory initiatives and infrastructure development.

Three, In many countries crowdfunding become popular as a funding sources for individual as well as for CMSMEs. In Bangladesh this product can be popularized for the benefits of CMSME sector. To ensure a smooth crowed-funding market, a well-organized platform may set up by any private or government agency to raise funds on behalf of the CMSME sector so that investor may avoid the potential risk of direct lending. However, entrepreneurs may contract directly to the fund providers through online platform specially for donation based crowed-funding. To make it more popular, CMSME stakeholders may create mas-awareness programs all over the country.

Four, Since CMSME sector is heterogenous in nature and characterize as vulnerable sector, the riskiness of this sector is comparatively higher. In these scenario credit guarantee scheme may be the good alternative for financing extensively in the sector. In this regard, Bangladesh Bank already started a credit guarantee scheme for CMSMEs including the women entrepreneurs. However, this is not sufficient compare to the larger demand of funds. Therefore, more Risk-sharing Facilities (RSFs) like credit guarantee schemes can be extended by government or any other stakeholders. Moreover, commercial banks may come forward with credit insurance facilities in a greater scale.

Five, Peer to peer lending, revenue-based financing and Risk-sharing Facilities (RSFs) can be the better alternative financing sources for CMSEs in Bangladesh. Many African countries including Kenya, Ghana, Tanzania, and Zambia are seeing an increase in market lending. Similarly, in Bangladesh we may use such P2P lending or market-place lending platform to meet their needs for short-term loans with reduced interest rates. In this regard, Fintech firms may facilitate this peer-to-peer lending. By providing loans themselves and linking CMSMEs to banks and financial institutions, fintech companies can enhance CMSMEs' access to capital. With revenue-based financing, businesses may raise capital by promising a portion of continuous future revenues in return for the capital. Software as a Service (SaaS), e-commerce, and subscription-based businesses may respond well to this kind of financing.

On the other hand, RSFs may assist commercial banks de-risk their lending decisions by covering a portion of the risks associated with lending to CMSMEs. The Credit Guarantee Scheme against Financing of CMSME customers has already been introduced by Bangladesh Bank. The bank can start a program with a CMSME focus that incorporates lessons learned from previous initiatives, particularly by addressing governance issues. To support new and innovative businesses, a variety of pre-bank financing sources can be explored.

Six, Although venture capital and business angels are largely use in international market, we are lagging behind using such approaches in Bangladesh. In order to expedite such approaches in our country, government has put forward policies that encourage the growth of the country's startup ecosystem. There are few venture capital firms working for the start-up businesses. For the greater development of new businesses or even the existing businesses who lac capital and managerial capacity, may be benefited form introducing more venture capitalists including public and private initiatives in Bangladesh. In this regard, wealthy individuals, insurance companies, pension funds, foundations, and corporate pension funds may pool money in a fund to be controlled by a venture capital firm.

Seven, For CMSME sector development, grant and subsidies are highly desirable. In this context, Bangladesh Bank may create a funds from the CSR funds as well as the funds received from the dormant accounts of all commercial banks. Government may attract more international donor agencies for availing such grant to be provided for the CMSME sector.

Eight, At present, banking market structure is not sufficient to fulfill CMSE financing need all over the country. Even, commercial banks along with other financial institutions and informal lending sector including NGO-MFIs, cannot accomplish the goal of CMSE financing demand. Hence, to ensure the financial inclusion, Government may think to set-up a 'Small Finance Bank' as a specialized CMSE banking network for extending larger banking services for the sector. Alternatively, Bangladesh Bank may categories some banks mostly to work for the CMSE segment all over the country.

Nine, although we have SME board in our capital market, the presence of listed SMEs is very low. SME capital markets should be well designed to mitigate risks arising from the external environment, which requires a sophisticated institutional mechanism supporting SMEs in direct finance as well as managing any possible risks. Hence, a wide-ranging policy framework for SME access to capital markets is required including policy measures for developing investor base and promoting market literacy. Furthermore, a strong and effective coordination is needed among stakeholders like policy makers, regulators, securities firms, market organizers, investors and SMEs. In order to increase the confidence of the investors SMEs should comply the standard requirements including limited liability company, asset valuation, standard books of accounts, tax filing, reporting and disclosure issues.

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