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Microenterprises in Bangladesh: Emerging Drivers of Inclusive Growth



Microenterprises (MEs) play a crucial role in the Bangladesh economy especially as key sources of growth and employment. These enterprises show significant dynamism and flexibility; and they can adapt quickly to changing market demand and supply situations. MEs are important vehicles for diversifying economic activity and have the ability to make significant contribution to economic and social well-being of the people. These enterprises also contribute to enhancing competition and entrepreneurship and promoting entrepreneurial talent, resilience, and flexibility which are important elements for confronting the uncertainties in the country's dynamic and rapidly changing economy. The success of Bangladesh's rapid transition to the middle income country status will significantly depend on promoting more inclusive growth for which MEs are emerging as drivers of economic transformation especially in the rural areas.

According to BBS Economic Census 2013, out of a total of 7.8 million enterprises in Bangladesh, 89 percent are micro (including cottage) enterprises. Cottage enterprises have either the value (replacement cost) of fixed assets excluding land and building of less than Tk. half a million or with up to 9 workers including household members while microenterprises have the fixed asset value between Tk. half a million and Tk. 5 million, or with between 10 and 24 workers. These enterprises together account for 56 percent of total engaged persons of 24.5 million in all enterprises.

A recent InM study on diagnostics of ME lending by microfinance institutions (MFIs) in Bangladesh suggests that these enterprises have unique characteristics in terms of their development potentials and growth possibilities. Moreover, these enterprises face constraints specific to their nature of business and operational requirements including availability and size of loan, terms and conditions of credit, and nature of client relationships.

The study brings out three important lessons for the future: (i) rural economic growth can be greatly fostered through promoting MEs which have significant production and consumption linkages; (ii) access to finance is a necessary condition for expanding and up-scaling these activities; and (iii) financial institutions especially the MFIs have the capability of working as effective intermediaries which can provide the links between savings and credit for financing MEs.

The study highlights that the MEs are extremely heterogeneous continuum of different types of enterprises, requiring distinct types of support for their development. Moreover, regulatory policies, which provide the operational framework for MEs, often represent significant obstacles to the development of the sector; so that appropriate policies are a key factor in the success of lending to MEs by the MFIs. It is important to assess and understand the overall conditions that exist at a given time to adopt well-focused financing strategies for the MEs.



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It is seen from the study that inadequate access to institutional financial services is a major obstacle facing MEs; but non-financial services, such as technical and marketing assistance, are also critical to ME development. Building sustainable institutional capacity to serve the MEs is important for guaranteeing productive ME lending by the MFIs rather than just disbursing loans or giving one time training to micro-entrepreneurs.

The MEs are constrained by both demand and supply side factors. They face different constraints including finance, product selection and competition. The study shows that finance is one of the critical elements in ME development. However, solving the problem in the credit market alone may not be adequate; the need is to create appropriate environment for developing MEs and solving the problems of credit market failures for the MEs in an integrated manner.

The country's industrial strategy, in addition to focusing on growth of MEs, needs also to be anchored in multi-layered subcontracting arrangements between the larger enterprises and the MEs and among the MEs themselves. In recent years, ME-centred activities in trade, services, agriculture and food processing sectors have expanded rapidly in response to higher demands and there exists more potential for their future expansion. Innovation and searching for new markets are also important for sustaining the growth of existing MEs and flourishing of new MEs.

For accelerating future growth and viability of the MEs, technological innovation and knowledge transfer, product diversification, and marketing services are the key areas where special attention is needed. The adoption of a comprehensive road map, jointly worked out for implementation through public-private collaboration, for technological and marketing services for the MEs can go a long way in creating a competitive ME sector in the country with required market linkages.

The study estimates the demand for ME loan (based on demand side survey) and supply of ME funds (based on existing supply of credit by MFIs and banks) and shows that an excess demand of Tk. 437 billion (which is about one and half times higher than the current disbursement) exists at present which is likely to grow

fast considering the targeted economic growth rates during the country's Seventh Five Year Plan (2016-2020) period.

An important element of the recommendations of the study is to focus, along with ensuring adequate flow of ME financing from the MFIs, on two fundamental pillars: policy reform and institutional development. This is essential to expand access to financial services for low-income and disadvantaged micro-entrepreneurs.

With the varied experience of successful financing of microfinance activities, the study notes that MFIs can be made to emerge as a major source of ME lending in Bangladesh through right action in the following four key areas: (i) creating a favourable policy and regulatory environment; (ii) building strong, sustainable institutions providing financial and nonfinancial services to meet the demands of MEs; (iii) creating improved access of low-income and disadvantaged (including women) micro-entrepreneurs to financial and business development services; and (iv) ensuring continuous and permanent flows of required financial resources to the MFIs for meeting the needs of the MEs.

The economic viability of MFIs serving MEs is a key to their long-term sustainability. Subsidised credit programmes are not necessarily ideal for the purpose as these programmes damage economic performance of MFIs and the subsidies are usually captured by larger MEs. With financial sector reforms and liberalisation, the opportunity to reach new market niches like MEs for both formal financial institutions (e.g. banks) and MFIs in a profitable manner may be used as the strongest incentive for expanding services to this underserved sector. The adoption of appropriate credit technologies and the development of appropriate financial products on the part of the MFIs can significantly reduce transactions costs and improve the capacity of MFIs to serve the ME sector and help them to emerge as effective intermediary institutions for ME development in the country.



- from the editorial desk

Second Graduation Ceremony of InM Certificate and Diploma Programme



The Second Graduation Ceremony of InM Diploma Programme was held on 3rd March 2016 at PKSF Auditorium, Agargaon. Mr. A H M Mustafa Kamal, FCA, Honourable Minister, Ministry of Planning, People's Republic of Bangladesh was present at the ceremony as Chief Guest. The programme was presided over by Dr. Qazi Kholiqzaman Ahmad, Chairman of InM. A total of 33 participants from 2nd and 21 participants from 3rd batch were awarded the Diploma certificate at the programme. Distinguished guests from various research organisations, policy-makers, government and non-government sectors, PKSF, MRA,

Bangladesh Bank were present among others in the programme besides MFIs.

The certificate was distributed among the participants by the Chief Guest. Based on the performance one participant from each batch was bequeathed with the Chairman's Gold Medal.. The awardees shared their experiences about the programme and expressed joyous feelings for their achievement.



Students from the second batch



Students from the third batch

Two-Day International Conference on Development of MSMEs in Bangladesh: Sharing Asian Experiences



A two-day international conference titled "Development of Micro, Small and Medium Enterprises (MSMEs) in Bangladesh: Sharing Asian Experiences", organised by Southeast University (SEU) in cooperation with Bangladesh Bank, BIBM, CIRDAP, InM and MSME related banks and financial institutions, was held on 5 - 6 March 2016 at the Permanent Campus of SEU at Tejgaon in the Capital. Governor of Bangladesh Bank Dr. Atiur Rahman inaugurated the conference as Chief Guest, while Vice Chancellor of SEU, Professor Anwar Hossain chaired the inaugural session. Director General of CIRDAP, Dr. Cecep Effendi, Director General of BIBM, Dr. Toufic Ahmad Choudhury and Executive Director of InM, Prof. Dr. Mustafa K Mujeri were present at the inaugural

session as Special Guests, while Chairman, Board of Trustees, SEU Trust, Md. Rezaul Karim was present as Guest of Honour. International delegates, national experts, teachers, students and officials of different universities and high officials of different banks and financial institutions were present at the conference. In this connection, an MSME Fair was also organised at SEU premises, represented by 35 banks. A total of 20 papers were presented at the conference by a number of representatives from seven different countries. Dr. Qazi Kholiqzaman Ahmad, Chairman, InM presented the keynote paper and Dr. Mosleh Uddin Sadeque, Director (Training), InM presented a paper on "Appropriate Credit Changes Lives for Women Entrepreneurs: Implications on Growth" in the Conference.

AARDO Delegate Visits InM



A delegate from AARDO country members visited InM Training Centre on 29 February 2016 as part of an international workshop cum training programme on “Governance in Microcredit Delivery System for Rural Development” organised by the Bangladesh Academy for Rural Development (BARD), Comilla. A brief presentation on InM research, training, education and other capacity development initiatives was organised for them and the members showed keen interest for bilateral cooperation on research and capacity development initiatives especially in the areas of appropriate finance and poverty alleviation. The participants were from different African and Asian countries viz, Taiwan (China), Egypt, Ghana, India, Iraq, Jordan, Korea, Oman, Nigeria, Pakistan, Palestine, Sri Lanka and Sudan.

Consultation Meeting with MFIs on ME Lending

InM organised a consultation meeting with microfinance institutions (MFIs) on 20 January 2016 to solicit their views on opportunities and policy challenges of microenterprise (ME) lending. The representatives of 26 MFIs (3 very large, 9 large, 11 medium and 3 small) participated in the programme. Dr. Mustafa K Mujeri, Executive Director, InM welcomed the participants and introduced the issues for discussion in the meeting. Professor M. A. Baqui Khalily, Honorary Adviser, InM explained the objectives of the meeting. Among others, Mr. Fazlul Kader, Deputy Managing Director, PKSF and Akond Md. Rafikul Islam, General Manager, PKSF were present in the meeting. The InM team presented the major issues of current practice of ME lending by the MFIs which was followed by detailed discussion on various policy and regulatory issues on financing MEs.



Meeting with Leading MFIs

As a part of setting the new research agenda on operational issues of MFIs, InM organised a discussion meeting with selected MFIs on 10 March 2016 to identify priority areas of research on operational challenges of MFIs, where InM could focus its attention in the near future. In the discussion meeting, Executive Directors and senior officials of nine MFIs were present. The discussion highlighted MFIs research needs and identified priority research topics within a participatory framework. On the basis of discussion the meeting identified five major research areas.

Drop-out pattern of MFI staff, nature, incidence and causes including appropriate remedial policies

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Pricing issues of MFIs loan

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Issues relating to branch expansion and MFI efficiency

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Computersing MFI operation: Issues and challenges

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Developing case study bank: Innovative and good practices of MFIs

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MoU Signed between InM and CIRDAP

InM has signed a Memorandum of Understanding (MoU) with CIRDAP on 15 March 2016. Dr. Mustafa K Mujeri, Executive Director, InM and Dr. Cecep Effendi, Director General, CIRDAP signed the MoU on behalf of their respective organisations. Dr. Vasanthi Rajendran, Director, Information & Communication Division and Director (Training); Mr. Shafiqur Rahman, Assistant Programme Officer, and Mr. David Hilton, Assistant Programme Officer from CIRDAP were present on the occasion. From InM, Dr. Md. Mosleh Uddin Sadeque, Director, Mr. Shabbir Ahmed Chowdhury, Director, Ms. Sifat-E-Azam, Deputy Director, Msmt. Ifrat Jahan, Senior Assistant Director, Mr. Mehadi Hasan, Senior Research Associate and Sk. Jabeer Al Sherazy, Senior Assistant Director were present.



Microenterprises (MEs) in Bangladesh

An Interview with Dr. Qazi Kholiquzzaman Ahmad



InM: What potential do you see for MEs to emerge as the second generation transformers of the country's rural economy?

QK: There is great potential for microenterprises (MEs) in Bangladesh in the context of diversification of the rural economy and its transformation towards modernisation. It is not possible for the largely agricultural and informal sectors-based economy to transform into one that is modern and industrialised in one go. It seems to me that the likely process to move, over a medium to longer run, into a developed state is one of 'hop stop and jump'. In this process, the MEs would serve to help create the environment and enthusiasm for taking the process of modernisation and industrialisation to higher trajectory. Already rural people are getting into the gear as it were, as MEs are flourishing across the country. These include agro-support and agro-processing industries and various other types of economic activities.

The Palli Karma-Sahayak Foundation (PKSF) has identified some 1,000 clusters of around 250 manufacturing, repairing, trading, agricultural, and other ME activities across the country. With appropriate financial, skill training, technology access, market information, marketing, and other necessary support, these clusters have the potential to become budding growth centres with ever expanding industrial and knowledge-based activities. The MEs in the clusters and elsewhere have, therefore, the potential to help modernise the rural economy of Bangladesh, encompassing agricultural modernisation (including crop, fishery, livestock, and plantation) as well as upgrading manufacturing, trading, and other economic activities.

InM: Access to finance is considered as one of the critical constraints to ME development in Bangladesh. At present, some of the banks are 'down-scaling' their loan size while some MFIs are 'up-scaling' their loan size to provide ME loans. Do you consider these as welcome trends in the financial sector?

QK: For the high potential of MEs in Bangladesh to be realised, funding is necessarily a crucially important requirement. In this context, led by PKSF, the MFIs (should perhaps be called DFIs meaning Development Finance Institutions) have for the past few years been up-scaling the size of loans being provided for ME development. Loans of up to Taka one million or about US\$12,800 each is being provided by PKSF Partners Organisations (POs) for appropriate ME development.

I hasten to add that the ultra-poor and the poor are, at the same time, receiving due attention from PKSF and its POs. The concept is, in fact, appropriate finance, that is related to the circumstances, need and abilities of the borrowing members. But, since only money is not enough, the PKSF model also provides for assisting them in terms of skill training, access to technology, market information and marketing of products.

Surely, these funding institutions do not have enough money to support the existing and potential financial demand for ME development in rural Bangladesh, particularly so if ME sectors are to play the critical role that it can in the process of modernising the rural economy and help move the economy steadily towards a medium-income, inclusive economy. There is not much of rural ME development funding now available from other sources as well.

There must, therefore, be credit lines for making the required finance available. In this context, the government should come forward to facilitate and support establishment of adequate credit lines to lend funds for ME development in rural Bangladesh in the amounts as required, which may vary from few lakh Taka up to, say, 50 lakhs (which is the bottom investment requirement for a small enterprise). At the same time, for the process of agricultural modernisation, industrialisation and other economic undertakings to move forward as fast as possible, funding and institutional support for small and medium enterprises (SMEs) should also be available.

In addition to being a pillar supporting the process of modernisation of the rural economy of Bangladesh, the MEs, by generating employment opportunities for the downtrodden, will simultaneously help eradicate poverty and reduce disparity.

InM: How important are the issues of appropriate credit technologies and financial products in reducing transactions costs and improving capacity of MFIs to serve the ME sector?

QK: Transaction costs are an important element in the cost of disbursing large numbers of small credits. However, most of the large MFIs (DFIs) of Bangladesh have been working for a long time and have been able to reduce cost of funds through generation of savings. In other words, in many cases, the savings that the institutions have been able to generate over the years account for a significant proportion of their loanable funds. These are in fact very low cost funds. Moreover, when a large proportion of the loans would be provided in terms of lakhs instead of the conventional thousands, cost of both delivery and collection of repayment as well as supervision costs and, hence, overall transaction costs should decline to some extent. It is, therefore, possible to further reduce the interest rate.

However, given the existing and potential demand for ME financing, these institutions need much more financial resources to be able to provide appropriate credits to support the fast expanding ME sectors in rural Bangladesh. In this context, the government may consider developing a conducive policy environment and an effective strategy so that ME development in the country, which is already making strides, is supported in terms of financial and other services, as required.



Impact of PRIME Interventions at the Household Level : Seventh Round

PKSF has been implementing PRIME in Greater Rangpur since 2006 to eradicate monga through financial and non financial interventions. InM is conducting impact evaluation of this programme since 2008. It has already completed six rounds of studies and the seventh round provides impact assessment of PRIME using panel data set for the period 2008-2015. The result of the 2015 survey is somewhat different from previous years. Many areas were affected by flood just few months before the survey was conducted. In some areas the flood even occurred twice. Areas that were adjacent to river were affected by river erosion. In this backdrop, the study explored whether PRIME had enhanced the capabilities of the participating households to better cope with adversities and whether the impact of the programme had positive impacts as before. With expansion of interventions, PRIME has emerged as a multi-dimensional programme. The report was submitted to PKSF in March 2016. The results highlight that households that received non-financial services along with financial service have performed better than households receiving only financial service in terms of all welfare indicators including food security, income, expenditures, value of physical and non-land physical assets, poverty and human dignity.

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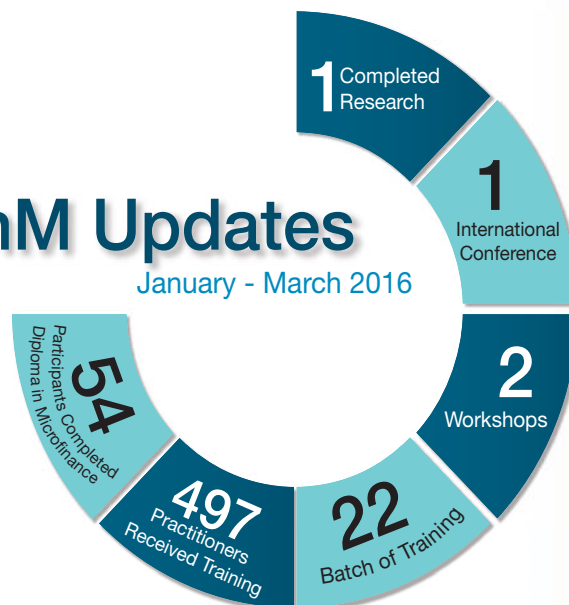
Knowledge Management, InM

Other KnM Activities



InM Updates

January - March 2016



Sponsorship Opportunities

Under the InM's 'Deepening Knowledge on Inclusive Finance in Bangladesh (DKIF-B)' Programme, InM plans to undertake a series of activities including research and database development starting from 2016. Under the Programme, sponsorship opportunities are offered. Interested government agencies, banks, financial institutions, microfinance institutions, corporate bodies, and other organisations are requested to contact: Coordinator, DKIF-B, InM; email: info@inm.org.bd.

