

IDLC MONTHLY

BUSINESS

REVIEW

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Modus Operandi for sustainable growth in midst of challenges



financing happiness

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SME Financing in Bangladesh

Modus Operandi for sustainable growth in midst of challenges

SMEs, being a backbone of economic development, face distressing challenges in accessing finance, so much needed for business growth. Financing gap is in severe state in Asia region, different studies by World Bank, OECD and other research organization demonstrates that Asian region has the highest amount of financing gap. Bangladesh is no exception from the region having a total of financing gap of USD 1.28 billion. The gap is higher for the women owned enterprise in Bangladesh.

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Capital Market Review



Boosting SME lending: the need of an hour for Economic Growth

Bangladesh made its place among the top three fastest growing economies of the world, with 7.3% GDP projection, equivalent to India, according to International Monetary Fund (IMF). The growth is mainly ascribed to manufacturing industry, where SMEs have 45% value addition. SMEs in Bangladesh, the “employment-generation hub” of the economy, accounts for 30% (Economic Survey, 2013) of the total labor force. This phenomenon gives the Financial Institutions a clear insight of the gravity of empowering SMEs by creating adequate lending opportunities. Also, policy-level initiatives like credit guarantee scheme, refinance scheme and so on by Central Bank reinforces financing access for SMEs.

Banks/FIs deserve accolades for expanding their SME portfolio over the past years and thus exceeding the SME disbursement target given by the Central Bank. However, the financial industry is still saddled with some concerns when SME lending is in question. Banks find it hard to consider SME loans as a core focus segment because of the higher cost of monitoring and underwriting, as SMEs

are scattered all across the country and are unstructured in terms of account management. Therefore, underwriting of SMEs is expensive and time-consuming since the cost and underwriting process for all borrowers (irrespective of size and value) are similar. FIs can come up with scoring models for SME businesses by deploying technology leveraging on the huge set of customer data. Also, more than just funding, small businesses require business management tools and advice on how to diligently manage working capital and FIs are the best fit to help them out in this scenario.

Lastly, this is worthy to mention that the whole financial industry played a crucial role in building SME ecosystem and educating the market at this level, with prudent guidance from the Central Bank. Now, expanding the SME market reach in a low cost manner, by deploying technology should be the priority of Banks or FIs.

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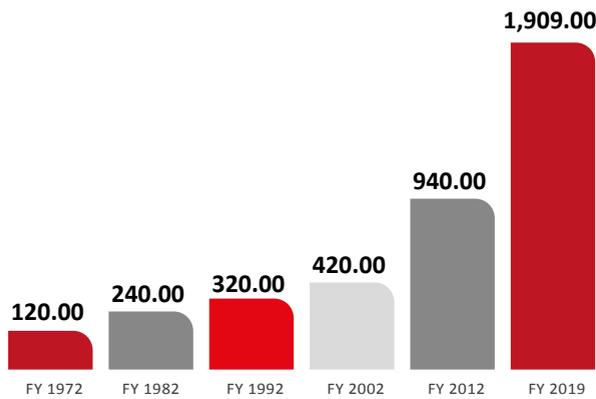
* IDLC MBR team conducted **IDLC ThinkTank- Spring Research Associate Program** in North South University where the Spring Research Associates are selected through case competition.

WORLD ECONOMIC INDICATOR-MARCH 2019

Country	CPI (%)	Unemployment Rate (%)	Current Account Balance (% of GDP 2018)	Interest Rates (%)	Currency Units (per USD)
Frontier Market					
Argentina	50.7	9.1	-4.7	11.3	37.1
Sri Lanka	127.1	4.4	-5.1	7	175.47
Vietnam	110.85	3.18	0.5	4.8	23199.5
Bangladesh	5.3	4.3	-1.1	5.26	84.03
Emerging Markets					
Brazil	3.9	12	-0.8	7.5	3.71
Colombia	3	12.8	-3.2	6.7	3,132
Mexico	3.9	3.4	-1.6	8.7	19
Egypt	14.3	8.9	-1.1	-	17.9
Poland	1.2	6.1	-0.4	2.8	3.75
Saudi Arabia	-2.2	6	8	-	3.75
India	2.6	7.2	-2.8	7.6	71
Indonesia	2.6	5.3	-2.8	8	14,093
Malaysia	-0.4	3.3	2.3	4.1	4.11
Phillipines	3.8	5.2	-2.4	6.5	52.1
South Africa	4.1	27.1	-3.1	8.8	13.8
Turkey	19.7	13.5	-4.6	16.1	5.44
Thailand	0.7	1	6.8	2.2	31.9
Russia	5.2	4.9	5.6	8.4	66.9
Developed Markets					
France	1.3	8.8	-0.8	0.6	0.87
Germany	1.5	3.2	7.6	0.2	0.87
Italy	1	10.5	2.6	2.8	0.87
Spain	1.1	14.1	1	1.4	0.87
Hong Kong	2.1	2.8	2.3	2	7.84
Singapore	0.5	2.2	19.1	2.2	1.35
Denmark	1.1	3.7	6.2	0.2	6.53
Netherlands	2.6	4.3	10.3	0.3	0.87
Australia	1.8	4.9	-2.4	2.3	1.39
Switzerland	0.6	2.4	9.6	-0.1	0.99

MONTH IN BRIEF

● **Per capita income hits USD 1,909**



● **Exports to US soar by 17.78% to USD4.59 billion in July-Feb on US-China trade war.**

● **Overseas jobs drop by 23% for Bangladeshi workers in Jan-Feb period, during which Bangladesh sent 109,607 workers.**

● **Mobile subscribers increased by 8.94 lakh in February, increasing total mobile phone subscribers to 15.84 crore.**

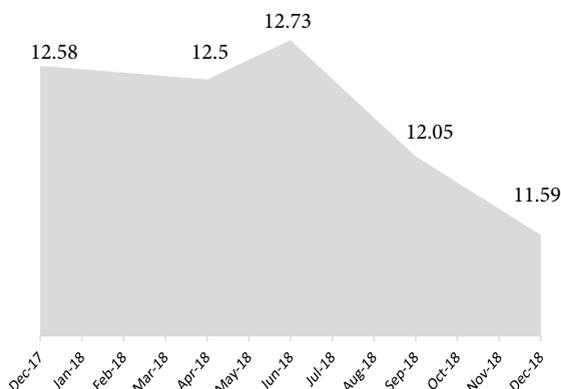
● **Country's first three years T bond based on interest rate determined by the market is launched in the market.**

● **Bangladesh Post Office brings Nagad, heating up the MFS market.**

● **Bangladeshi companies paid BDT 197 crore in digital advertisement bills to global internet giants.**

● **Deposit growth falls despite high interest**

Deposit Growth



● **High production cost a bar to ceramic exports. Raw materials have minimum 27–87% duties including customs, regulatory and supplementary duties.**

● **China and India grab huge local helmet market amid operations of different ridesharing services and a comparative tightening of traffic rules.**

ECONOMY AT A GLANCE

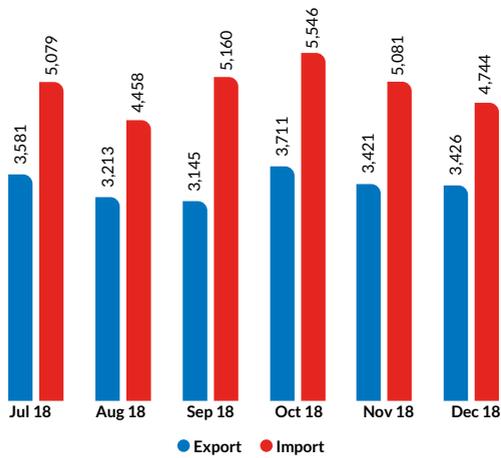
BDT 6,002.85
crore net sales of
saving certificates in
January

Remittance inflow up
9.31%
y-o-y in July-January 2019

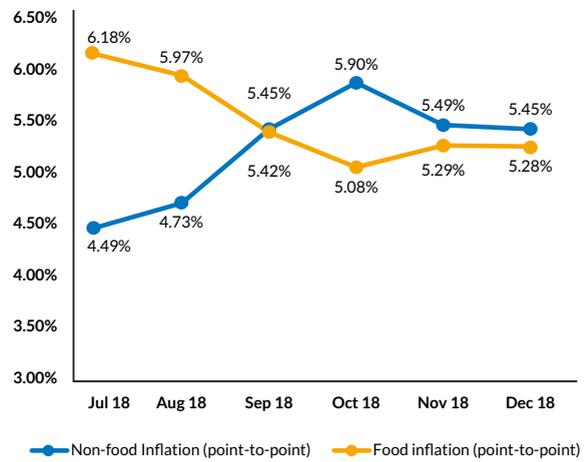
Private investment
was **23.4%** of GDP for
fiscal year 2018-19

EXPORT-IMPORT

(USD in million)

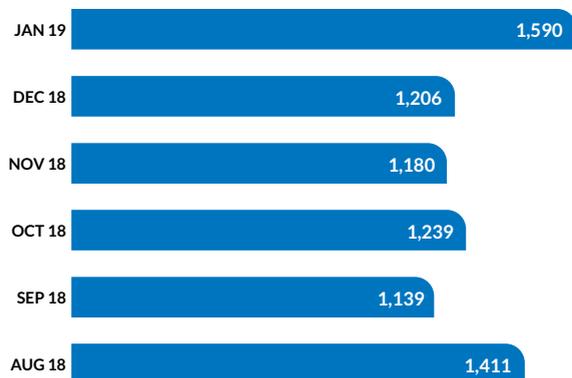


INFLATION

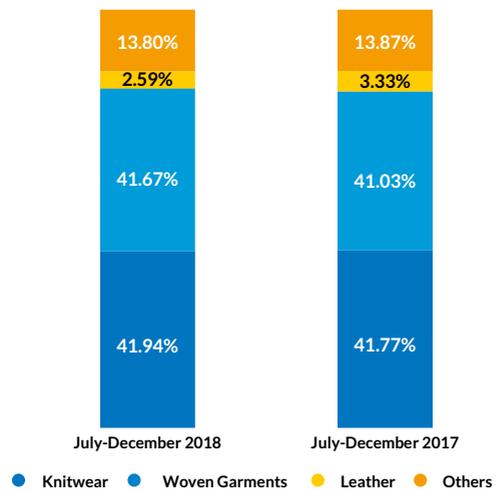


REMITTANCE

(USD in million)



SECTOR-WISE EXPORT



Exports to Jobs: Boosting the Gains from Trade in South Asia

Bangladesh being strong in export growth

RESEARCH IN FOCUS

Bangladesh went through 56% population increase from 106 million in 1990 to 166 million people in 2018. The rate will be lower than the growth of working age population growth in near future. In Bangladesh labor force participation rate declined from 60 to 58 percent, which indicates that Bangladesh needs additional labor force. Bangladesh managed to improve the gender balance with increase of women's participation in different sector. Female LFPR rose from 23 percent in 2005 to 36 percent in 2015.

According to it, increasing exports per worker in South Asia would result in higher wages for workers generally found in the formal sector and falling informality for many marginalized groups.

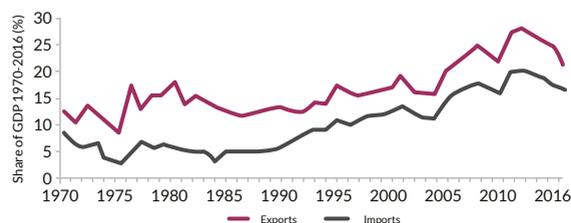
Bangladesh went for launching a wide-ranging trade reform strategy (including exchange rate policy reform) aimed at easing imports and expanding exports for rapid industrialization, led by the private sector.

Bangladesh's exports of final apparel in 2013—which have nearly tripled since 2007—amounted to over USD26 billion, making it the second-largest exporter of final apparel in the world next to China. As a result, this economy's exports are highly concentrated in textiles and apparel sectors.

Policies to benefits export growth

- Boosting and connecting exports to people (for example, by removing trade barriers and investing in infrastructure)

Figure 2.6 Bangladesh's Exports and Imports Have Risen Sharply Since 1970



Source: World Development Indicators, <https://data.worldbank.org/data-catalog/world-development-indicators>.

Insight of Bangladesh's Export Sector

- Exports grew steadily from **3.4 to 20.2 %** of GDP between 1984 and 2012
- Imports surged from **13 to 28 %** of GDP
- Exports as a share of GDP dropped to **16% by 2016**
- Bangladesh's apparel export industry's value is **USD22.8 billion**
- **Second-largest exporter** of final apparel in the world next to China.
- Bangladesh will require about **34 million** additional jobs by 2030

- Eliminating distortions in production (for example, through more efficient allocation of inputs)
- Protecting workers (for example, by investing in their education and skills)
- Scaling up exports in labor-intensive industries could significantly lower informality for groups like rural and less-educated workers. Other workers would also benefit from increasing skills and the participation of women and young workers in the labor force.

ABOUT THE RESEARCH

'Exports to Jobs: Boosting the Gains from Trade in South Asia' is a survey published by World Bank Group in association with International Labor Organization (ILO) to shed light on growth of south Asian region and reduction of poverty with export based job.

THE BEST WAYS TO USE SOCIAL MEDIA TO EXPAND YOUR NETWORK

Social media has become one of the main channels of modern communication and expanding network. But knowing how to use social media to build business relationships is really important. To diversify and grow one's network, social media is an important platform. From a research, IDC has found that 75% of B2B buyers and 84% of executives use social media to make purchase decisions. But the communicators have not been able to make good use of it because of lack of actual understanding of networking. According to LinkedIn's 2018 State of Sales Report, 89% of top salespeople consider networking platforms to be critical to closing deals. That said, it can be challenging to reach out to people you do not know. So here are some advice backed up by the product executive at LinkedIn for building a stronger business network with the help of social media.

- **Do not obsess about seniority**

Too many people focus on trying to network with senior people. Instead of reaching out only to executives, prioritize building relationships with one's peers and with people who are early in their careers. This network will grow with you, and connect you with opportunities and seniors down the line. Research at LinkedIn shows that response rates differ significantly by the seniority of the recipient. People earlier in their careers respond most often to an initial message, while VP's and C- level professionals respond the least to people they do not already know.

- **Be brief but personal in you first message**

People do not have the patience to read long messages that look and feel like spam, especially if it is the first time they are hearing from you. So keep it brief - what are the bullets you want to convey? Write those three sentences. In a research it is found that messages under 100 words perform best, and response rates decrease significantly as word count increases beyond 5000 words, so keep the message short

and easy to read. Of course, the content and tone of the message matters too. The messages should be meaningful like having a handwritten touch and the reader should feel like being spoken to as a human while reading the message.

- **Ask for advice and take advantage of transitions**

Often the best way to ask for advice is to be direct. It can be simple as saying, "I'm kicking around some ideas and would love to bounce something off you. Can I buy you coffee?" And if you are in a transitional period - starting at a new company, switching industries, or moving to a new city - recognize the opportunity to reach out to people, ask for their advice, and absorb their wisdom.

- **Pay it forward**

The best way to build a relationship is to help someone with joy and with no expectation of anything in return. It feels good, it trains your own sense of generosity, and it informs you of what the person values. It also sets the stage for you to ask them something in future. You do not have to offer to help in every circumstance, but make yourself available as a resource to people, particularly to people who are just starting in their careers.

As you build your online network, do not neglect the people you already know. Your network is rooted in existing real life relationships, so put effort into connecting more regularly with the colleagues, clients, partners and mentors who have firsthand experience of working with you day-to-day and week-to-week. Social media opens up incredible possibilities for strengthening your professional network if used smartly.

 **ABOUT THE RESEARCH**

"The Best Ways to Use Social Media to Expand Your Network" is an article published on Harvard Business Review written by Doug Camplejohn on how to build a strong business network on social media.

WHY CEOs DEVOTE SO MUCH TIME TO THEIR HOBBIES?

CEOs have to meet the ever increasing demands of their jobs in both private and public spheres. They need to invest considerable time in their leisure to prevent stress from taking over their lives. Emilia, a former CEO conducted private interviews with 17 CEOs of S&P 500, Fortune 500, and similarly sized U.S. companies, asking about their hobbies, what it meant to them and how it shaped their leadership abilities. Research showed that CEOs are often overburdened with extreme work load. Excessive stress impairs strategic thinking, leads to increased aggression and reduces ability to engage in positive leadership behaviors. Simply relaxing on the couch or even spending time with loved ones is not sufficient. Studies point to passionate, active leisure pursuits as the key source of recovery. Some reasons that motivates CEOs to devote so much time to their hobbies are-

Continuous drive to improve

To reach new heights of mastery hobbies are necessary. For instance, Brian Roberts, CEO of Comcast, led his squash team to the gold medal in the Maccabiah games in his first year as CEO. While competitiveness certainly comes up as a motivation, for most of these CEOs it is truly about reaching one's highest potential, a lesson they have transferred to leading. One basketball-loving CEO spoke compellingly about how his experience as a player came to the rescue during a very difficult time for the business.



Control

While feeling in control of one's work is a basic psychological need, it may paradoxically be harder to achieve in the top job. This can take a serious toll on the top leaders' emotional balance, especially as expectations, from themselves and others, are still that they be in full command. One CEO told that he got into cycling right after the financial downturn. It made him that he had better command over his work.

Deeper connections with followers

Most CEOs who have a serious leisure interest have found a way to connect it to their followers. Moreover, these activities provide a precious opportunity to solicit honest feedback. Top leaders have a duty to know what is going on in their organizations and what the shared narratives are that shape their company's cultures. However, they often struggle to do so, as information is filtered and embellished during its flow through established, hierarchical channels. Going for activities such as runs with employees help to build stronger network.

Developing and Consolidate Leadership

For the vast majority of the S&P 500 CEOs, their passionate interests originated in college or even earlier and are fully integrated into their life stories, because they provide a powerful expression of their core identities. A recent HBR article showed that CEOs have, on average, about 2.1 hours a day for simply relaxing or pursuing active hobbies and even this time is probably highly fragmented during the day. The beauty of a passionate non-work interest is that, in the words of one CEO, "It will force you to find time for it."

ABOUT THE RESEARCH



"Why CEOs Devote So Much Time to Their Hobbies" is an article by Emilia Bunea, Svetlana N. Khapova and Evgenia I. Lysova published on Harvard Business Review which is based on private interviews with 17 CEOs of S&P 500.



SME FINANCING IN BANGLADESH

**MODUS OPERANDI FOR SUSTAINABLE
GROWTH IN MIDST OF CHALLENGES**

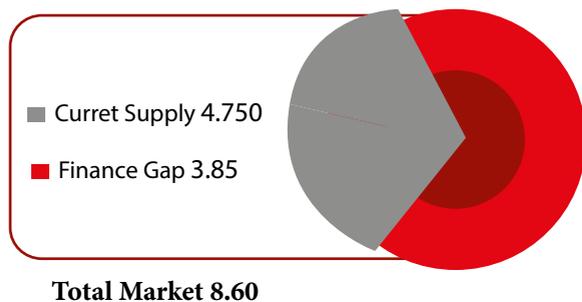
SME FINANCING IN BANGLADESH

MODUS OPERANDI FOR SUSTAINABLE GROWTH IN MIDST OF CHALLENGES

IFC's recent MSME Finance Gap study estimated that there is a USD 5.2 trillion unmet demand for financing among micro, small and medium firms in emerging markets. Despite the recognized importance of the SME sector, evidence indicates that SMEs continue to be undersupplied with the financial products and services that are critical to their growth. In global surveys, including the World Bank's Enterprise surveys, SMEs report that the cost of finance is their greatest obstacle to growth and rank access to finance is another key obstacle.

SMEs, being a backbone of economic development, face distressing challenges in accessing finance, so much needed for business growth. Despite 65 million enterprises having unmet finance needs, banks are reluctant to extend credit with only 20% of their lending being channeled to SMEs. As such, there is pronounced need for accessible and inclusive financial products and services.

Finance Gap in SME (in USD, million)



Financing gap is in severe state in Asia region, different studies by World Bank, OECD and other research organization demonstrates that Asian region has the highest amount of financing gap. Bangladesh is no exception from the region having a total of financing gap of USD 1.28 billion. The gap is higher for the women owned enterprise in Bangladesh. According to research, though Bangladesh has significant programs to increase the growth of SME but still many service, manufacturing and business sector is dealing with inaccessibility to credit.

SMEs are particularly in need of bank services because they lack the cash flow to make large investments, they cannot access capital markets as large firms can, and they often lack qualified staff to perform financial functions,.

Banks face significant difficulties in serving this segment. It is hard to measure risks of SMEs that often don't have hard collateral and transparent financial information, the costs to acquire and serve are high, it is challenging to grasp the firm's lifecycle and its growth factors – all this leads to the slow progress in SME finance and subsequently triggers the large finance gap.

Key Highlights of SME in Bangladesh

- SMEs have **25% contribution** to the country's GDP
- **78 lakh jobs** have been created in the SME sector
- **98%** of establishments are micro units having less than **10 workers**
- **13%** of the business are manufacturing, rest **87%** are in trading and service sector.
- **60%** of the financing gap is of women-owned SMEs in Bangladesh.

Most SMEs, including new, innovative and fast-growing firms, remain heavily reliant on internal resources and traditional bank debt. The lack of appropriate forms of finance, especially of the equity-type, stands in contrast with large businesses, and is limiting entry, long-term investment, expansion and innovation. The availability of bank lending and of alternative sources of finance

■ Top 20 SME Portfolio of Private Commercial Banks in Bangladesh (in crore)

	Value
Islami Bank Bangladesh Limited	30,343
Al-Arafah Islami Bank Limited	10,474
EXIM Bank Limited	9,341
BRAC Bank Limited	8,347
Social Islami Bank Limited	5,688
Pubali Bank Limited	5,284
Uttara Bank Limited	5,140
AB Bank Limited	4,822
National Credit & Commerce Bank Limited	4,597
Premier Bank Limited	4,566
Southeast Bank Ltd.	3,955
Bank Asia Limited	3,286
City Bank Limited	3,236
IFIC Bank Limited	2,869
Mercantile Bank Limited	2,866
Dhaka Bank Limited	2,679
Dutch-Bangla Bank Limited	2,626
Eastern Bank Limited	2,399
Jamuna Bank Limited	2,281
Prime Bank Limited	2,223

Source: Based on annual report 2017

is held back by a combination of demand and supply-side barriers, most notably limitations in financial knowledge, strategic vision and resources, willingness or awareness to successfully attract sources, a lack of exit options for investors in SME finance markets, etc.

While bank financing will continue to be crucial for the SME sector, there is a broad concern that credit constraints will simply become “the new normal” for SMEs and entrepreneurs. It is therefore necessary to broaden the range of financing instruments available to SMEs and entrepreneurs, in order to enable them to continue to play their role in investment, growth, innovation and employment.

SME Financing in Bangladesh

Small and Medium Enterprises (SMEs) form the backbone of Bangladesh economy with an estimated 6 million establishments across the country according to Asian Development Bank, accounting for 25% of country’s Gross Domestic Product (GDP), 45% of manufacturing value addition, around 90% of industrial units and 30% of labor force.

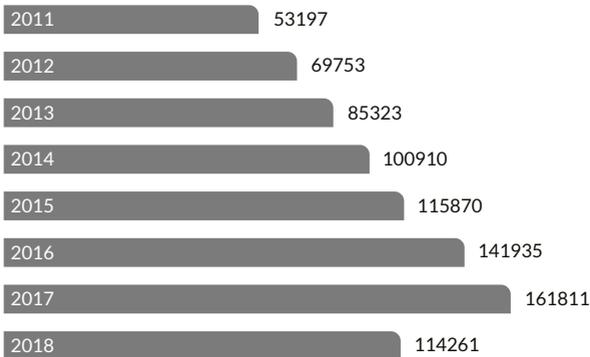
Yet the SMEs are saddled with the constant challenge of accessing monetary resources and labor at the right cost at the right time.

“At the same time best-in-class SME-focused banks reported Return on Equity (RoE) of around 25% and Return on Assets (ROA) of 3–6% for their SME operations compared with 1–3% bank-wide.”

Policy level assistance to SMEs

Central Bank played a pivotal role in driving the Financial Institutions to boost their SME Portfolio. As per the instruction by Bangladesh Bank, Banks/FIs are bound to maintain 20% of their loan portfolio as SME lending. In order to facilitate women-run business financing, Central Bank instructed the banks to charge single-digit lending rate. Aside from these, Bangladesh Bank, in collaboration with UNCDF (United Nations Capital Development Fund), has started a CGS with USD 2 lacs USD grant provided by UNCDF for women entrepreneurs for a period of October 2016 to June 2019. Under this scheme, titled as “Credit Guarantee Scheme”, a total number of 12 guarantees have

SME Disbursement in Bangladesh (in Crore)



been issued against Tk.1.11 crore in 12 different clusters of 8 districts in Bangladesh. As per the instruction the Central Bank, Banks/FIs set up a “Women Entrepreneurs’ Dedicated Desk” with necessary and suitable manpower in order to facilitate the women entrepreneurs.

Not only Bangladesh Bank, SME Foundation (SMEF) facilitated the SME market in numerous ways. Since 2010, SME Foundation has been implementing a special loan program called “Credit Wholesaling Power” to empower SME clusters, new entrepreneurs, rural entrepreneurs and women entrepreneurs to easily avail loans. Through various banks and financial institutions, the entrepreneurs are financed with small, collateral-free loans of 9% interest under the program. Not only that, over the years, SMEF has been arranging trainings on different key business related issues and conducting national-level fairs to showcase the products of SME entrepreneurs.

Challenges of SME in Bangladesh

- **Poor infrastructure and utility supply:** Bangladesh has poor infrastructure, especially traffic jam is a huge problems in Bangladesh. Which reduce the efficiency of business. Access to business facilities like utilities not ensured for many of the business entities in Bangladesh.
- **Unavailability of collateral free bank loan:** Most of the SMEs are sole proprietors. They want to employ themselves. So they cannot afford collateral based financing which is restricting them to take loans.
- **Limited access to information:** There is deficiency of enough information in Bangladesh which restrict FIs to improve products on SMEs based on that information.
- **Poor managerial know-how:** Business owners of Bangladesh have poor managerial know-how leading many business to failure.
- **Bureaucratic procedures:** Starting an SME business is difficult in Bangladesh as bureaucratic procedure lengthens the time for starting a business. This is why Bangladesh is lagged behind in doing business indicator because of time required to establish a business.

New sector of SME to explore as new banking opportunity

Traditional business models serving SMEs face more and more challenges, pressed by higher competition and shrinking margins. To address this, banks are creating specific proposition for niche SME segments rather than for the entire market. Some examples might be serving youth, women-owned enterprises, start-ups, informal businesses, etc. New areas can be focused to penetrate SME banking and to expand. Which will require exploration to many broad areas.

- **Supply Chain Financing:** The importance of small and medium industries in the development of a developing country like Bangladesh is immense. Currently, most industries in the country are covered by the SME sector. Financial institutions provide loans to SMEs for arrangement of working capital, business expansion and capital machinery procurement. SME banking opportunity lies in removing the constraints that are currently present in the system.
- **Non-Financial Services:** There is information gap between loan applicants and banks. Different commercial banks set their own rules and regulations along with the rules of the Bangladesh Bank in terms of service charge, requirements of additional documents, time for processing etc. Sometime banks do not provide proper explanation of rejecting a loan application to the applicant. There appears to be information gap between the bank officials and entrepreneurs regarding the rules of lending in different banks and the loan settlement process.
- **Women Entrepreneur Financing:** Commercial banks usually give a grace period for one to three months for loans granted for productive

activities. This grace period is too short for small entrepreneurs. Women entrepreneurs find themselves in a tougher situation when doing business. The constraints faced by women entrepreneurs include inadequate access to finance, lack of start-up capital, small size of capital, inadequate training facilities, lack of information and managerial experience, complexities in accessing formal credit, various family and social taboos, barriers to market access, women-unfriendly transport and working conditions etc. Among all these constraints, access to finance, to start a business or to expand an existing business appears to be a dominant one.

Arranging guarantors for bank borrowing is a big challenge for women, and this is an area where the existing policy can be revised. According to the rules set by the Central Bank, any person who asks for a collateral-free loan needs two guarantors. One is from the family members and the other from outside the family, preferably a well off person with good reputation. If the applicant is married, in majority of the cases, the spouse needs to be the guarantor. It becomes difficult for a separated woman to get guarantee from the husband. Majority of the women entrepreneurs face problems in getting a guarantor outside the family. A mechanism to arrange for alternative guarantors if need be can propel SME growth. This needs to be formulated by both the regulator and the financial institutions.

- **Early Stage Financing:** For start-up capital, banks and other financial organizations provide loans to an established business, which are registered for at least three years. However, arranging start-up capital is a major concern for entrepreneurs. This problem is even more stringent for women, especially for unmarried women. Parents tend to provide financial support to their sons for business but not to the daughters as many of them consider that the business will go under the control of future son-in-law and there is no benefit for them (the parents). Banks should look into the journey map of SME entrepreneurs and identify opportunities for value addition from their end. There is bigger scope in offering non-financial services such as business consultancy.

Insight of SME Sector

- **97%** of all companies in China are SMEs and their contribution to **GDP is 59%**.
- **131 million or 41%** of formal SMEs in developing countries have unmet financing needs
- SME finance gap in developing countries is estimated to be **USD 2.6 trillion**.
- **SME employs 70%** of the workforce in Japan.
- Women owned business comprise **23% of SMEs**.
- **32%** of the SME finance gap is the sector where women works.

Fintechs, in fact, do not represent threat to traditional banking

SME Banking is facing a wide array of challenges

Many solutions have been created or are in making. Prudent SME Bankers are in quandary on how to use third party providers to improve scale and operations of the business. Many view fintechs as threat to the traditional SME business since they heavily leverage on technology. In reality, that is not the case. With lack of scale and access to the large customer base of a bank, systems and well-established processes, fintechs have little chance to compete on a large scale on a sustainable basis. Instead, they can certainly complement traditional banking and in return benefit from the bank's infrastructure.

As many-times-cited CBInsights' "Unbundling the bank" portrays, fintechs can individually do almost every function of traditional banks. However, if there is no connecting infrastructure, they cannot reconstruct the bank. Hence, instead of fearing the fintechs, traditional FIs can rather find great opportunities to leverage their innovations to streamline and optimize its

Fintech Types	Examples	Facts
Alternative lenders	Ant Financial, Afluenta, Kreditech, Moni	In 2017, P2P lenders and marketplaces held \$209bln outstanding loans with China, USA and UK being the leaders in the space.
E-commerce / techfins	Amazon, e-bay, Alipay, Google, Apple	Account for 10% of the total retail sales worldwide, reaching USD 2.3 trillion in 2017. By holding the transactional history of merchants on their platforms, they are better positioned to assess the risk of the loans.
Payments and transfers	MPesa, TransferWise, Square, Stripe, Revolut	Improve customer experience by leveraging on mobile devices and connectivity, as well as by saving on transaction fees
Big Data and AI	CreditVidya, Tiixa, Lenddo, Feedzai, Couldera	Enables banks to process and understand the historical data to make forward looking decisions around the credit risk and customer preferences and behavior
Niche product offering	<ul style="list-style-type: none"> ● Value-added services; Supply Chain Finance platforms 	<ul style="list-style-type: none"> ● Assist banks become a partner of SMEs by providing data and information. ● Connects suppliers, buyers and financial institutions for transparent financing of supply chains.

operations. The banks should benefit from collaboration with fintech rather creating defense against them.

Fintech lowering SME lending costs:

- Staff reduction and increased organizational efficiency lower operational expenses.
- A broader range of sources, such as psychometric, mobile and social media data are combined which increases the accuracy of credit scores thereby lowering finance costs.
- By using technology, loan officers can efficiently identify and serve more lenders resulting in lower operating expenses.
- Highly automated online lending process reduces operating expenses

Case in Point

DBS Bank, Singapore empowering their SME customers

DBS Bank, a world leader in digital innovation, automation is at the heart of the SME offering. While

the overall SME customer base grew just 4% year on year during Euro money's review period and deposits by 11%, transaction volumes through the digital channel grew 72%. Revenue per digital customer was up 10% year on year.

“DBS's partnership with Xero, a cloud accounting platform, gives SME customers a consolidated view of their accounts from any device at any time.”

Through the use of the bank's digital capabilities, customers can open an account in a single day in Singapore without needing to go into a branch, with a courier dispatched to collect whatever documents need to be seen, while back-end processes have been streamlined. A dedicated portal, DBS Get Set, also allows entrepreneurs to set up their businesses within a day, although that is partly a reflection of just how easy it is to do business in Singapore.

DBS has so far attracted 4,000 smaller companies across six markets into its multi-currency account, ideal for those venturing into cross-border business in The Association of Southeast Asian Nations.

LendingKart, India creating superior SME experience banking on technology

No need to “Fill Large Forms”

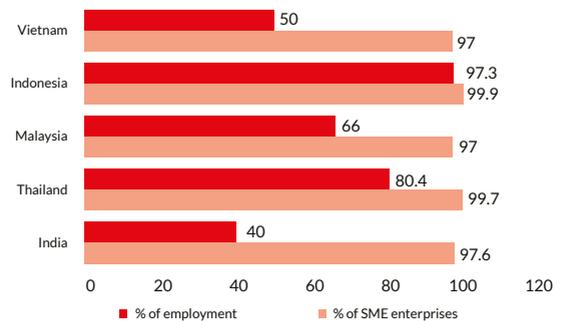
Lendingkart Finance Limited (formerly Aadri Infin Limited), is a non-deposit taking NBFC, providing SME lending in India. The company aims to transform small business lending by making it convenient for SMEs to access credit easily. They use technology and analytics tools, analyzing thousands of data points from various data sources to assess the creditworthiness of small businesses rapidly and accurately. The objective is to make capital funds available at finger tips so that entrepreneurs can focus on business instead of worrying about gaps in their cash-flows. The business model of LendingKart lies on WISH framework:

- Without human intervention (subjectivity and last mile fraud)
- Instant (money when needed)
- Simple (no dependencies on intermediaries); and
- Hyper-flexible (terms for repayment and renewal)

LendingKart developed technology tools based on analytics and big data to facilitate Lenders to evaluate their client’s business. There is enough data available to

- 1 Online Process**
 The application process is 100% online takes just 15 minutes
- 2 Requires Few Documents**
 For e-commerce vendors LendingKart only take bank statements and GST returns
- 3 Collateral Free**
 Does not require any Collateral or Net Worth details
- 4 Get Instant Loan**
 Receive your loan within 3 days and use it to grow your business

Outlook of SME in South Asia



determine a customer’s intent to pay back a loan, quality of his product/service, financial health of his business, and ability to survive with competition etc. Customers do not need to ‘Fill large forms.’ The data could be scraped from public/private sources, APIs. Over 2,200+ variables are assessed to determine the financial health, comparative market performance, social reliability and compliance to statutory requirements to facilitate the Lenders to determine the credit worthiness of SMEs.

The unique selling proposition of Lending Kart is based on the online process and quick turnaround time. Their algorithms based credit analysis allows them to achieve fast services. The USPs are as follows:

One of the key success drivers of Lending kart is the algorithm which they use to evaluate the financial and social characteristics of the prospective clients. Use of app has also enabled them to reduce costs as they don’t need brick and mortar setups like the conventional banks. Furthermore, the demographic of India is such that there are many opportunities for MSME loans which are untapped by the commercial banks as it is not financially viable for them. Additionally, with people becoming more tech savvy and want faster services, lending platforms such as this are bound to thrive.

How can Banks/FIs strengthen SME market reach?

Usually, there are two routes for SME bankers to boost their business:

- acquire new customers and
- deepen the relationship with existing customers

In many markets the larger effect can be reached through the second route given the competitive pressure

and costs associated with expanding the client base. However, in Bangladesh, as the economy is burgeoning at an unprecedented pace, more SME businesses are mushrooming, requiring more access to finance. Therefore, banks/FIs need to increase the New-to-Banking ratio in order to empower the SME enterprises.

“An analysis by IFC demonstrates that banks pursuing a structured NFS benefit from 130% ROI, doubling its net promoter score, 60% increase in cross-sell and 50% accelerated portfolio growth.”

- **Providing Non-Financial Services (NFS)**

A key driver for SME banking is non-financial services proposition (or NFS). NFS represents business support services, enterprise development or value-added services which complement the financial offerings of a bank. Examples are trainings, workshops, networking, consulting/mentoring, online toolkits, publications, media programs. NFS helps banks with accelerating client acquisition, raising brand awareness, and improve portfolio profitability.

The top-notch SME Banks of Bangladesh have their own Business Facilitation Service desk which educates the customers on how to obtain trade license, IRC, PRC and other regulatory documents.

- **Banking on the new area of SME businesses**

There are some accelerators in SME banking in modern world which are serving the women’s market, commercial vehicle financing, supply chain finance, which represent a significant untapped opportunity for FIs. In a 2016 study of IFC, it was revealed that banks and non-bank financial institutions in Bangladesh met the credit needs of only around 40% of the women-led SMEs. Therefore, the vacuum is large and the opportunity

is vast. Commercial Vehicle Financing is the most value-adding dimension in SME Financing. Sales of commercial vehicles rose 10.65% year-on-year to 25,980 units in 2018. Financial Institutions like IDLC Finance Limited, United Finance Limited played a strong role in financing this segment. Also, in recent times, Pubali Bank Limited started to penetrate in this mode of financing. Supply Chain Finance can be another accelerator in SME sector, however, the product could not gear up in Bangladesh to the expected level due to absence of proper regulation. United Finance Limited and IPDC Finance limited are the two major players of Supply Chain Finance.

- **Coming up with customized SME products**

The essence of SME businesses is embedded in local markets. Currently, our Financial Institutions offer “one size fits all” products for SME sector, but SME enterprises are so geographically diverse that customizing product offerings can be really helpful for expanding the market reach.

- **Integrating technology in SME business operation**

Financial Institutions are the largest warehouse of customer data, since they take a wide array of customer information for appraising them. The problem, this plethora of customer data is so unstructured, that it is not possible to any meaningful insight driven by the data. Financial Institutions have ample opportunities to work in this arena.



SME FINANCING IN BANGLADESH DIRECTIONS FROM POLICY LEVEL



In order to facilitate SME Financing, Bangladesh Bank has come up with many directive measures for the banks/FIs e.g. instruction on maintaining 20% of total loan portfolio in SME financing, rolling out credit guarantee schemes, lowering provisioning requirement for SME clients, single digit lending rate for women entrepreneurs and many more. MBR had the opportunity to have a one-to-one conversation with Mr. Shaikh Md. Salim, General Manager, SME & Special Programs Department (SMESPD) to get a birds eye view on SME Financing and the future role of Central Bank towards strengthening SME lending.

Shaikh Md. Salim

General Manager, Bangladesh Bank

MBR: From the perspective of a regulator, what is your opinion about the growth of the SME sector over the past years in Bangladesh?

Shaikh Md. Salim: SME & Special Programmes Department of Bangladesh Bank started its journey in December 2009. This department has been working on the policy support towards ensuring country's inclusive & sustainable economic growth through SME development with a special focus on women entrepreneurship development. Over the passage of time the purview of the SME is expanded & now the SME is turned into CMSME which stands for Cottage, Micro, Small & Medium Enterprises. This initiative included home based entrepreneurs. On the other hand we have introduced group based lending which played as a role of catalyst in the growth of cottage and micro segment.

A target based lending to Cottage, Micro, Small & Medium Enterprises (CMSMEs) has been initiated since the inception of this department. All banks & Financial Institutions have been disbursing credit to CMSMEs following their indicative target set on a calendar year (Jan-Dec) basis. If you see the trend over the last few years, the sector is on a growth trail & exceeding the target in recent years. From 2010-2018, the total disbursement of SME sector is BDT 942,343 crore, which is commendable. We divided the target into different categories under Manufacturing, Services & Trading Sectors and prioritized the small segment. Considering the importance of the small segment in CMSME sector, minimum 50% of the total CMSME financing has been set for Cottage, Micro & small segment. We have also re-set the sector wise targets. The present targets to be achieved for manufacturing and service sector are 30% & 15% of total CMSME portfolio

and these are to be increased to 40% & 25% consecutively by 2021. Presently maximum 55% of total CMSME portfolio of a Bank/FI can be given to Trading Sector which is to be lowering down to 35% by 2021. Actually we are encouraging manufacturing & service sectors finance to facilitate employment generation in the country.

MBR: How can Banks/FIs strengthen their role to expand their reach in SME market?

Shaikh Md. Salim: The role of CMSME is indispensable for the economic development of a country like Bangladesh. This sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation; achieving Sustainable Development Goals (SDGs) especially eradication of extreme poverty and hunger, gender equality and women empowerment. So we all should focus on CMSME enterprise financing.

It is up to the Bank/FIs' best judgment whether they will lend money to SME sector or not. At present, many big corporate loans have been stacking up and the risk for Banks/FIs is increasing. Lending money to CMSME sector can reduce the risk of large amount of default loans, ensure portfolio granularity by diversifying the risk. Therefore, the top level management of the Banks/FIs have to understand the necessity and impact of SME financing on its portfolio. The chance of profitability from lending money to SME sector is high, therefore those who have targeted SME from the very beginning and concentrated less on the corporate, have been maintaining a growing portfolio.

MBR: What is your opinion regarding the development of women entrepreneurship in SME sector? How can

Banks/FIs expand the span of women entrepreneurs' loan?

Shaikh Md. Salim: As I said earlier this department has a special focus on women entrepreneurship development since its inception. Financial Inclusion has been prioritized in Bangladesh Bank's policy to include small entrepreneurs and a large number of women in Financial activities. To ensure this, Bangladesh Bank has taken a number of policy initiatives like refinance facility for women entrepreneur at low cost (bank rate + 4%), regulatory provision for collateral free loan for women entrepreneurs against personal guarantee up to BDT 25 lac, group based lending, Simplified Loan Application Form in Bengali etc. According to the policy of Bangladesh Bank, Banks/FIs must maintain 10% of their total CMSME loan portfolio in financing women entrepreneurs. By 2021, the percentage will have to rise to 15%. This policy will include more women in the financial system which will ultimately expedite women empowerment.

Experience shows that most of the women entrepreneurs are not educated; they are lacking behind of financial literacy knowledge. Firstly, their capacity needs to be developed. Bangladesh Bank instructed every Banks/Non-Bank Financial Institutions to find out at least three new women entrepreneurs for imparting training to develop their capacity and extend credit facilities to minimum one of them by each year per branch. If one bank cannot afford to organize the training, they might do it in a combined manner. If banks/FIs can do this they will be ultimate beneficiary.

The entrepreneurs are not well aware about all the facilities offered by the bank, which is a lack of communication from the bankers' side. Another thing is, most of the women entrepreneurs do not know about all the formalities and procedures of loan application and setting up business. So if the banks help them with this taking a minimum charge if needed, that would be a great help for the women entrepreneurs and also another source of income for the banks. As per Bangladesh Bank instruction, there should be a dedicated desk in every bank branch for facilitation the women entrepreneurs, but in most of the banks these desks actually lack of dedicated personnel at service. Whenever the women entrepreneurs come to collect information, the banks do not give them the whole picture at a time. So there should be a one stop service to facilitate them.

MBR: Bangladesh Bank already took commendable initiatives/schemes to penetrate into the SME Market. What initiatives from the Central Bank are expected in future to strengthen the SME sector?

Shaikh Md. Salim: We have to address the major problems in this sector and to understand it. We do not

have any central national database of SME clients and the information of the lenders. It is not possible for the banks/non-bank financial institutions to set up it by their own but the government may take initiatives to gather information of CMSME business by ensuring maintenance of database of clients that all FIs can access. It would be easy for us to track down the whole problem if the government wants to regulate the process through Bangladesh Bank. The database will help to identify the client and their previous loan status easily. This will help to reduce the loan processing time. Information regarding primary business information (e.g. nature of business, no. of employees, investment, business turnover etc.) can be stored in the database.

Banks/Non-Bank Financial Institution should operate capacity development programs to increase the loan portfolio and get more people under the reach of credit. Banks can also add e-learning feature in their website to give more financial literacy services to the entrepreneurs.

MBR: What do you think, as regulator, are the prime challenges of SME sector?

Shaikh Md. Salim: About half of the population of our country is women & women participation in the mainstream economy is crucial for balanced economic development. Women entrepreneurs face different types of problems in our country. Inadequate capital, access to capital, small size of capital, lack of startup capital, lac of knowledge & sufficient information, Lack in access to market & lack of market demand related information are mentionable problems. Finally, most of the banks/non-bank financial institutions offer collateral based financing, sometimes which is not sufficient enough for the growth of CMSME.

“Banks/non-bank financial institutions can focus on receivable financing alongside with collateral based financing.”

They should give emphasis to innovate more SME friendly loan products to cater CMSME demand. Besides, institutional support from different government and non-government institutions is required for development and growth of women entrepreneur. Moreover, legal and institutional guidance are also highly required to make a trade-off between challenges and future prospects of women entrepreneur so that they can feel encouraged creating new venture with new hope.

IDLC CREATING STRONG Foothold IN SME MARKET



Ahmed Rashid Joy is in the banking industry for twenty years. He worked in leading private commercial banks in Bangladesh and International Finance Corporation (IFC), World Bank Group (WBG). He is specialized in SME Banking, Risk Management, Credit Risk- Wholesale Banking, Retail Banking etc. Currently he is leading a portfolio amounting to BDT 3520 crore.

Ahmed Rashid Joy
Head of SME, IDLC Finance Ltd.

IDLC Finance, “Best SME Bank in Bangladesh, 2019” awarded by Asiamoney

IDLC has been awarded as “Best SME Bank 2018” by Asiamoney, which is of a high standing recognition for us. I understand we achieved this recognition based on two grounds: first one is the financial performance ground. IDLC SME division has been growing around 21% on an average in last one decade. According to the diagnostic report titled SME 2.0 by International Finance Corporation (IFC), IDLC is the most efficient SME Banker in Bangladesh because of the low cost-to-income ratio of 39% in 2017. IFC also mentioned that IDLC’s NPL at 2.77% level in 2017 is one of the lowest in the market. Even in a critical year like 2018, we have been able to achieve Return on Asset (ROA) at 1.74 level. Alongside, leveraging on our 14,000 SME customers, we made significant strides in cross-selling of deposit products and mutual fund products.

IDLC’s non-financial service (NFS) model is very strong and well regarded among the stakeholders. Under the platform of Purnota (women entrepreneur financial solution), in collaboration with SME Foundation we conducted capacity building training for over 400 women entrepreneurs in 14 districts across Bangladesh. We also arranged Purnota Fair (Trade Fair) in 4 districts of Bangladesh, where around 160 promising women entrepreneur showcased their products.

We are also committed to promote the goods and services of Bangladeshi SMEs. Since 2017 we have been conducting a campaign titled “Let’s Shop দেশী” (Lets shop local) in social media urging people to shop products manufactured by Bangladeshi SMEs during festive seasons.

In order to strengthen small business enterprises, we have signed a MoU with Kichai Limited, a Bangladeshi Fintech firm. They developed an accounting software for the SMEs so that they can maintain their financial records in a structured way. This will assist them in understanding true financial condition of the business and will also help IDLC to analyze their business in the future.

Having said this, we would like to inform that this ‘Best SME Bank’ award is not new to IDLC. We received a similar award, ‘Best SME NBF’ in 2014 jointly awarded by Bangladesh Bank and SME Foundation.

“At IDLC, we do not chase any award, we believe that awards will chase us based on our commitment and dedication on whatever we deliver.”

Relationship Management, heart of IDLC SME’s Business Model

Any banker knows that term loan is a non-relationship product as customers do not frequently visit branches of a bank when they solely avail term loan. When bankers sell trade products (L/C, TR etc.) and transactional accounts (CASA) to SMEs, these are relationship product as only then customers interacts frequently with the bankers. Given the licensing limitation at IDLC we can only sell term loan and few structured loans to SMEs. At IDLC,

our SME colleagues have embedded relationship within this non relationship product i.e. term loan and I believe the recipe of success of IDLC SME lies in our embedded relationship model. We are in frequent interactions with our SME borrowers, always sort of encircle them with monthly monitoring and constantly keeping eyes on the business in order to finance in the future. And because of the high efficient Credit Risk and centralized Operation team, we can ensure faster turnaround time in disbursing loans. This guarantees value for money for the SME clients who do not want to be treated as mere an 'account', they want relationship and money at the right time.

Another unique component in our SME business model is that we do not literally follow the Product Program Guideline (PPG); it is indicative for us. Our credit assessment is meticulous and industry-oriented as each loan application is visited by our credit analysts. Our credit analysis is not document based, it is based on validating customers' cash flow and business on the premises that ultimately results in maintaining a low NPL ratio in SME portfolio.

We are the only FI in Bangladesh who have been conducting Net Promoted Score (NPS) survey since 2012. This is an independent survey by third party vendor, quantifying satisfaction/dissatisfaction level of our SME customers. Our NPS score was 59 in 2012 and increased to 72 in 2017 indicating more numbers of customers will promote IDLC's SME.

Maintaining a robust portfolio of BDT 3,500 crore with the lowest number of distribution channels (only 28 branches), limited manpower (400 SME human resource), confined facilities being an NBF (no Current Account, Cash Credit (CC), Letter of Credit (L/C), ATM counter) has been quite a roller-coaster ride for us. I believe, our people are our USP, who toil away day and night with the sole purpose of establishing IDLC SME as the brand in the industry.

Kaizen Model of Management

Our CEO and Managing Director, Mr. Arif Khan regularly preaches us one word; 'Change'. He personally is the follower of the Japanese 'Kaizen' model which literally means 'improvement' on daily basis. As per CEO's guidance and in order to strengthen our business model, we continue to challenge our own policies, procedures and products as we understand nothing is static. We try to fine-tune our model on daily basis and try to explore newer tools. We constantly try new things in SME like we did the customer segmentations model (Platinum, Gold SME Customers) which was first of its kind in Bangladesh. We



did this customer profiling based on revenue earned, length of relationship and repayment record of the borrowers. In 2018, we introduced Tab based Sales Operation. Soon we will roll this out countrywide. We also developed a Credit Scorecard to assess the risk of very small businesses with guidance from IFC and later validated by CRISIL India. Our CEO has suggested us to develop a model to finance the micro business entrepreneurs who are availing loan at as high as 60% interest rate from the loan sharks. If we can finance these borrowers, their lives will change and such financing will have very strong impact on the society. So it is not only financing; it's financing happiness.

Understanding Customers, the Segments and the Sweet Spot

To me, introducing new products and solutions are not the important factors for any SME lenders. What is important is to understand the 'customers' and the sub-segments like micro, small, medium and emerging. After thorough understanding of the customers and the sub segments, an FI based on its institutional capability and based on its risk appetite should identify the 'Sweet Spot' where it wants to operate, develop product, set appropriate price and then deepen. Let me give an example of the sweet spot. In the small segment, say we can finance from BDT 25 lac to BDT 5 crore. Now this is a very wide band. There is no meaning of operating in a wide band within a segment. Just focus on the sweet spot e.g. BDT 40 lac to BDT 70 lac depending on the organizational strength and then develop product and policies.

Understanding the profitability in SME Financing

The main challenge that I find in SME financing in Bangladesh is that most of the players in the financial system do not realize that (i) SMEs are more profitable than any other customer segments and (ii) SME Financing is like an economic movement. If you finance the SMEs, then you basically are providing access to finance for the unbanked which is important.

Since most of the banks follow branch banking model they prepare the P&L Statement of the branch that has all

segments of the customers, Consumer, SME and Corporate. They will derive the combined ROA of the branch and hence will miss that the ROA from SME Financing was the highest. When a bank will have P&L Statement business wise i.e. Corporate, Consumer and SME only then a bank will clearly find that SME Financing is the most profitable and focus more on doing business in this segment. We need to be very clear on what we are doing.

Role of Fintechs in SME Financing

Presently most of the things that we do, identifying customers, analyzing risk, underwriting, monitoring and collections, the way we are doing these are mostly technology assisted but not technology led practices. We do Contact Point Verification (CPV) manually by visiting the business or residence of the applicant but it can be done with the help of technology. For instance, if subscribed to the corporate version of Truecaller, we can identify the caller or his/her contact address. Even with the telco data, we can see the person's footprints (derived from nearest BTS) in the last three months and validate his/her present address considering the most frequent footprint in a particular location.

We can even subscribe to the psychometric models which are being tested in other parts of the world. Some have failed, some did not, some are doing good, but we can keep this in mind that it's not only identifying the cash flow of the customer, it's also important to identify the behavioral aspects of the customer, whether he is a good boy or a bad boy.

Even in my recent visit in India, we visited four Fintech companies and found that they are doing Shop Score. Based on the location of the shop, if it is located in the heart of the market, it will get a higher score, if it is located in a backward position, the score will be lower. If the signboard of that shop is painted on iron sheet, then the score will be low, and if the signboard is a PVC board with neon lights, the score will be higher. If the shop has consumer goods loaded it will get higher score than the one whose shelf is thin. All these analytics and scoring is done based on an image of the shop captured. So this is image analytics. Now I am adding the telco data for that shop. If you see from the BTS that there were thousands of footprints surrounding that shop, it means that shop had more customers. Then there are companies like Perfios, who are analyzing bank statements of the shop owner.



There are many other things coming around like the video analytics. If you conduct a video of a factory, the analytics will tell you what the machineries are or how much inventory they have. Even you can go in the Google video analytics and see that how they are analyzing a video. So these are the new things coming, if we do not understand that these are forthcoming, we will fail definitely.

Role of Bangladesh Bank

When SMESPD department at Bangladesh Bank started functioning in 2009, hardly one or two banks were in SME financing radar. Now if you look at, after 10 years almost, they have pushed the bankers, formulated regulations, allowed refinance scheme, setting the targets for SME financing, rewarded SME financing leaders etc. that now even small borrowers in remote districts have the courage to enter a bank and ask for loan to the branch managers, which was not the scenario ten years back. There was this cultural shift or a mindset shift among the bankers due to these robust regulations and moral persuasions by the Central Bank, especially the SMESPD department. Again, another big role of the central bank was to allow refinancing scheme, so that the banks fund more to the SMEs at a lower cost and earn a good profit. In future, Bangladesh Bank is coming up with credit guarantee schemes, which now I think is very important for the SMEs in Bangladesh.

“The future of not only SME Financing but the banking as a whole will be based on analytics. It will be a combination of customer behavioral analysis, data analysis, image analysis, voice analysis and video analysis.”

Future of SME Financing

Based on behavioral analysis like the augmented psychometric test, even analyzing voice plus statement of someone the system might determine its authenticity or confidence level of the customer. In my recent visit in India, I went to four fintechs: Capital Float, Lendingkart, Vistaar Finance and SubK and we found that each of them have 15 to 20 data scientists in their company. We need to start this in our financial sector. Someone has to create instance, that's important. If someone creates instance, other might or might not follow. But if no one creates instance, then we will be nowhere.

IDLC Finance Limited
financing happiness

বাড়ির স্বপ্ন এখন আর বাড়াবাড়ি নয়

আইডিএলসি'র হোম লোন-এ বাড়ি করার সময় এখনই!

আমরা জানি, বাড়ির সাথে শুধু স্বপ্ন না, জড়িয়ে আছে আপনার হাজারো দুশ্চিন্তা ও যামেনা। তাইতো, ট্রেন 'এ' সেকিউরিটি বেটিং এবং ৩০ বছরের অভিজ্ঞতা নিয়ে দেশের সর্ববৃহৎ আর্থিক প্রতিষ্ঠান আইডিএলসি শুধু হোম লোন-ই নয়, আপনাকে দেয় আত্মা, নিশ্চয়তা ও নিরাপত্তা। এবার সব দুশ্চিন্তা জমা দিন আইডিএলসি'তে আর আপনি নিয়ে যান হোম লোন, নিশ্চিন্তে।

আইডিএলসি হোম লোন নিচ্ছে: ■ সবচেয়ে দ্রুত সময়ে খণ্ড পাওয়ার নিশ্চয়তা ■ ২০-২৫ বছর মেয়াদে সহজ কিস্তি সুবিধা ■ মেয়াদ শেষের আগেই সম্পূর্ণ বা আংশিক খণ্ড পরিশোধের সুযোগ ■ কোনো হিডেন চার্জ নেই

হোম লোন পেতে: ☎ ৯৬৪০৯ 🌐 idlc.com

LEADING THE LARGEST SME PORTFOLIO IN BANGLADESH



Islami Bank has the largest SME portfolio of Bangladesh. SME portfolio consists of 11% of total SME portfolio of Bangladesh. Currently Mr. A.K.M. Shahidul Hoque Khandaker is leading the large portfolio as the capacity of Head of SME.

A.K.M. Shahidul Hoque Khandaker

Senior Vice President & Head of SME
Islami Bank Bangladesh Limited

MBR: SME is called to be the growth engine for a vibrant economy like Bangladesh. Being the leader of SME division of the largest SME bank in Bangladesh, how do you see the growth avenues for SME sector?

A.K.M. Shahidul Hoque Khandaker: SME is important for a country like Bangladesh in employment generation, poverty reduction, women empowerment and inclusive economic growth. More than 90-95 percent of industrial units in Bangladesh belongs to SME. SME sector in Bangladesh contributes 25% in GDP, 40% in employment, 80% in industrial jobs and substantially contributes in export.

SME plays a pivotal role in development of a country. SME sector is commonly considered as an important vehicle for attaining inclusive growth of any developing country. Industrial revolution started through developing Small and Medium Enterprises, which reduces unemployment and alleviates poverty.

Development of a country depends on proper utilization of local resources, which can be easier through SME. Japan, Germany, Britain, France, the leader of industrialization developed themselves through encouraging SME.

As a least developed country, Bangladesh has a huge scope to contribute in national economy through industrialization. A substantial number of youth are unemployed. If we like to bring these unemployed youth to the mainstream economy, alleviate poverty and graduate our country as a developed one, we have to focus on SME specially developing village economy through injecting capital, provide training for capacity building and accumulating

“Sustainable development of Bangladesh can be ensured through boosting agrobased economy. Agro-based SME financing facility as well as focusing women empowerment in the national economic activities can ensure SDGs. We think that Bangladesh has a huge scope to work in this sector.”

mass people in the economy.

MBR: What is the SME Business model of Islami Bank Bangladesh Limited ?

A.K.M. Shahidul Hoque Khandaker: Islami Bank Bangladesh Limited (IBBL) uses branch banking model for SME business where each and every branch act as front office. Induction of new entrepreneurs, proposal processing, disbursement, supervision, monitoring and recovery are done by the branches. Approval of investment done by branch, Zone and Head Office as per discretionary power delegated by the Board of Directors of the Bank. To manage overall SME business portfolio of the bank, we have established 2(Two) investment divisions namely

SME Investment Division-I & SME Investment Division-II under Retail Investment Wing with the leadership of a senior executive Deputy Managing Director/Senior Executive Vice President. As per Bangladesh Bank guidelines we have also a Women Entrepreneur Development Unit at Head Office and SME & Women Entrepreneur dedicated desk at Zone and Branch offices to operate the SME business. Besides these, 2(two) separate divisions are also working on SME business namely Rural Development Division and Retail, Consumer & Real Estate Investment Division under the same wing. We provide investment/facility to the SMEs as per usual banking norms i.e. continuous and term investment/facility on the basis of nature of business or requirement. There is no involvement of 3rd party vendor in this model, which is handled by bank officials directly. So, the total investment process is based on banker-customer relationship. This is why, it is cost effective, almost free from bad client induction and over financing. Since the investment in this model is on revolving basis, the rate of NPI is comparatively low.

MBR: How financial institution can come up with the new product/initiatives for SMEs to empower the market ?

A.K.M. Shahidul Hoque Khandaker:

There is a lot of scope in Bangladesh to work in SME sector. Huge number of population are out of direct financial services. Bank and Financial Institutions can come up with new products initiatives on sector or sub-sector wise like trading, manufacturing, service, agriculture, light engineering, cluster as well as women entrepreneurs considering the type of demand and necessity of the business.



Islami Bank Bangladesh Limited

MBR: How women entrepreneurship loan will help develop SME financing ?

A.K.M. Shahidul Hoque Khandaker: 50% of the total population of our country are women. It is impossible to develop the country without participation of the women in overall economic activities.

Therefore, it is necessary to develop entrepreneurship among the women to involve them in the mainstream

“Since maximum SMEs are located in rural area, FIs using fintech can deliver financial services like application process, appraising, sanction, disbursement and recovery of the loan/investment with in reasonable time easily. So, Fintech can develop SME financing in the FIs of Bangladesh.”

economy towards national development. They need required financing to run their business. Women Entrepreneurs are the part of SMEs. So, financing to the women entrepreneurs will help SME financing and develop their overall business activities as well as increase contribution in national development.

MBR: How Fintech can develop SME financing in the FIs of Bangladesh ?

A.K.M. Shahidul Hoque Khandaker:

Fintech means financial technology, the new technology and innovation like application, processes, product, business model is used for delivery of financial services, which improve financial activities. The use of smart phones for mobile banking, investment services and cryptocurrency are examples of fintech to make financial services more accessible to the customers. By using fintech financial institutions can improve and develop their services and render all kinds of financial services to the SME clients easily within the shortest time at lower cost.

MBR: What are the challenges for SME business and SME financing in Bangladesh ?

A.K.M. Shahidul Hoque Khandaker: Now a days SME business and financing is the most important matter in Bangladesh. Development partners, Government, Central Bank, SME Foundation and Financial Institutions are trying to explore develop/strengthen the SME business by all means. Yet, SME business and financing

are facing some challenges. These are-Non-co-operation by different authorities for getting necessary permission/papers/documents/utilities etc and facing obstacles from local miscreants incurring huge unseen/hidden costs; Unwillingness of the Banks/FIs due to lack of collateral security; Limited access to finance, Lengthy process; lack of adequate knowledge, skill and experience; Lack of expertise & technological support; Higher interest/profit rate; Necessity of excessive documents; Obligation for credit rating; Lack of suitable incentives;; Limited access to business information & market opportunities; Lack of business plan, managerial capacity and marketing skill; Weak infrastructure; Compliance issue; Hard competition in local and international market etc.

If, we overcome these challenges and can attract the entrepreneurs towards financing facilities as well as provide them necessary advisory and technological support, we are hopeful that SME will be the pioneer in national development and can play a vital role in achieving government target of middle income country by 2021 and developed economy by 2041.

MBR: What initiatives of the regulator will be helpful for SME financing ?

A.K.M. Shahidul Hoque Khandaker: Bangladesh Government has declared SME as the priority sector in the Industrial Policy 2016 and established SME Foundation under Ministry of Industry to support SME sector. Bangladesh Bank has established a separate department namely SME & Special Programs Department to develop SME sector. Bangladesh Bank has been trying to expedite financing to the SMEs through scheduled Banks and NBFIs continuously. They have formulated and circulated

different guidelines to the Banks/FIs to ease the access to finance to the SMEs. Bangladesh bank has also created re-financing fund to help SME financing through Banks/FIs with the help of Donor Agencies.

Yet, there are scopes to take some initiatives from the regulators, which will be helpful for SME financing e.g.

- To ensure co-ordination among the regulators and all other stakeholders
- To ensure getting necessary permission, papers, documents, utilities, infrastructure facilities etc. easily at a nominal cost
- To ease regulatory compliance
- To build-up credit guarantee fund with SMEF to ensure finance to the prospective entrepreneurs who have no security with the help of donor agencies and CSR fund of Banks & Financial Institutions
- To motivate the policy makers & management of the Banks/FIs to give preference on SME financing at a affordable rate of return
- To give R&D, training, technical & technological marketing etc support/facilities to the entrepreneurs continuously.
- To take proper initiatives to bring the informal light engineering sector to formal sector as backward linkage
- To take initiatives to bring insurance companies in supervision process of SMEs to keep them in right track.



SURFING ON THE WAVE OF SME BANKING



Syed Abdul Momen is the head of SME Banking at BRAC Bank. He joined BRAC Bank in August 2005 and has been instrumental in making BRAC Bank the undisputed leader in the small business lending space in Bangladesh. He has over 18 years of multifaceted experience in the Banking Sector across Technology, Operations and Business Functions.

Syed Abdul Momen Head of SME, BRAC Bank

Growth avenues in SME sector and SME financing

Bangladesh has come a long way in SME financing, particularly because of the role of government and Central Bank. BRAC Bank is owned 48% by BRAC which has been doing micro and small business financing since 1972, right after independence. Since 2000, BRAC found a gap in the market- none of the banks financed small businesses without collateral. BRAC Bank was formed in 2001 with a view to financing the SMEs, not the large ticket ones. Invariably in all banks, average SME ticket size is around BDT 50 lacs, whereas it is BDT 8.5 lac in BRAC Bank. Due to having small ticket size, BRAC Bank finances a large volume of clients.

Every month BRAC bank disburses around 7000 loans, out of which 60% is new-to banking.

Over the last 10 years, more banks have come under the umbrella of SME financing, thanks to the policy initiatives by Bangladesh Bank. An internal survey result showed that almost 80% of the SMEs had their first account opened at BRAC Bank, which proves that BRAC Bank made the businesses bankable. Gradually, the learnings from BRAC Bank trickled down to the industry and educated the market. Especially, over the last two years, margins in other business segments have shrunk driven by liquidity crunch and so banks are moving towards SME financing. Moreover, as per the central bank regulation, all banks must have 30% of their total portfolio in SME lending by 2025, which is another driving factor.

Research shows that SMEs contribute to 25% of our GDP and provide 80% of the employment as well. According

to a study by Daffodil University, the growth of medium businesses in Bangladesh is 13% whereas small businesses grew by only 10%. If small businesses grew at a much larger scale, it would be possible to achieve double digit GDP growth in the Bangladesh economy.

Collateral-free small SME lending is the key focus of BRAC Bank

“BRAC Bank maintains BDT 10,000 crore SME portfolio, out of which 60% (BDT 6,000 crore) is small-ticket loans and financed collateral-free with an NPL ratio of 2%, which is less than the NPL (3%) of total SME portfolio. Here lies the expertise of BRAC Bank and achieved this expertise from the learnings of past 15-17 years.”

Over this span, the institution has followed 3 different models, all of these having some pros and cons. At one point, NPL went up to as high as 18-19% in the SME sector. The model currently followed is a decentralized one. Credit is decentralized while the business acquisition model

is sales team based. BRAC Bank has around 2000 sales people spread across the country with 460 unit offices and 186 branches. The SME Unit Offices are small sales offices with only SME loan processing facility which comprises of 2-3 sales persons in each office based on business volume. 260 SME Unit Offices operates as a stand-alone basis and Disbursement and collection take place primarily through corresponding banks. Last year, BRAC Bank embarked on its journey with agent banking by obtaining its license. By this year, 260 locations will be converted to agency and there will be no dependency on corresponding banks.

BRAC Bank's current operating model is designed by establishing accountability in each and every role which are involved in the life-cycle of the loan –

- The Acquisition Team is responsible for collection
- The Credit Approver visits each and every business and provides approval

Along with accountability, a strong governance culture is also established. Previously, internal control team used to visit every office once every 3 years which was very ineffective. Now, BRAC Bank established a monitoring team of more than 300 people. They visit each SME Unit Office once every 3 months and also talk to the customers of that unit.



Once loans are long overdue (more than 90 days), BRAC Bank's Special Asset Management (SAM) team comes. SAM comes early because BRAC Bank wants to intervene at early stage and take decisions on the loan early. SAM Team comprises of Legal Experts.

Coming up with market-tailored products

The SME lenders must have top-notch market knowledge. Currently, SME products are much like “one size fits all”. A substantial portion of SME business is seasonal, and 80% of transactions are seasonal. Cash flow is not the same throughout the loan period. During production, there are more cash requirements and during sales, inflows are high. Products need to be designed based on the cash flow cycle which will make customers' life easier. This area is largely

missing. BRAC Bank is in the process of developing such product and discussing the idea with Central Bank. The key issue is, if banks want to serve customers, they must customize.

Educating the market- the core challenge of SME Financing
The level of education and the business documentation among SME customers is not up to the mark. Many customers still use notebooks for sales record keeping. BRAC Bank's loan officers sit in the shops during peak times, observe customer frequency to the shops, recreate financial statements and give the sales format to the customer so that s/he maintains proper recording. If the customers come for repeat financing, it will be easier to process. In this manner, BRAC Bank is educating this vast SME market. They prefer hands-on training more than classroom training for SME customers. There are other challenges regarding compliance of businesses, including absence of trade licenses and tax identification number.

Initiative from policy level

Banks need to have the liberty to design their own products. In addition, there are definition problems which people take advantage of. For example, in the new definition for trading concerns, if yearly turnover is less than BDT 12 crore, it is considered as Small Business and more than that is considered as large corporate. This is not practical and the bank is proposing to Central Bank to relook at these limits especially for Small & Medium sized trading concerns.

Emergence of fintech in the SME sector

Recently, many international FinTechs tried to venture into creating digital credit model for Bangladesh by analyzing the available data points. Unfortunately, no one could come up with a decisive model as the Quality & depth of data is good enough to establish a model. Thus digitalized credit lending has a long way to go in Bangladesh. However, in recent times, many Payment Service Providers are investing in building this ecosystem.

IDLC approves 35% cash dividend at its 34th AGM



The 34th Annual General Meeting (AGM) of the shareholders of IDLC Finance Limited was held on Thursday, March 28, 2019 at the Radisson Blu Water Garden Hotel, Dhaka. In line with the proposal by the Board of Directors, the AGM approved 35% Cash Dividend (Taka 3.50 per share) for the company's shareholders for the year 2018.

At the event, it was enlightened that on the back of strong governance framework and commitment towards customer-centric drive, IDLC continued to be the frontrunner in the financial market, and displayed resilient performance in 2018, despite the challenging market conditions. At the end of 2018, the IDLC Group's total loan book increased by 17.39% reaching BDT 83.93bn, while NPLs reduced to 2.20% (2018) from 2.77% (2017), reflecting an improvement in portfolio quality. This succeeded in strengthening the Total Asset size by 14.09% to BDT 109.17 bn, which contributed to a 5 year Cumulative Average Growth Rate (CAGR) of 16.70%. Even the 5 year CAGR of the Group's Net Profit after Tax stood tall at 26.53% at the yearend, despite the decline in profitability experienced by the subsidiaries (IDLC SL, IDLCL IL and IDLC AML) during 2018.

Aziz Al Mahmood, Chairman, IDLC Finance Limited presided over the AGM, which was also attended by other Directors – Atiqur Rahman (Chairman of the Executive Committee), Monower Uddin Ahmed (Independent Director and Chairman of the Audit Committee), Md. Abdul Wadud, Mahia Juned, Mohammad Mahbubur Rahman, Mr. Md. Kamrul Hassan, Mati Ul Hasan, Niaz Habib, Matiul Islam Nowshad, the CEO & Managing Director, Arif Khan and the Company Secretary Mohammad Jobair Rahman Khan. A large number of shareholders were also present at the meeting.

The Chairman and the CEO & Managing Director both welcomed the assembled shareholders and thanked them for their continued sponsorship of IDLC. They highlighted how the financial performance was attained through extreme vigilance and process efficiency that helped IDLC garner solid financial performance and outperform the peers. The prudent strategic maneuvers of 2018 and continued drive for sustainable business model have created the bedrock for strong performance in 2019 and beyond, in the fast growing Bangladesh economy. Shareholders, too, voiced their appreciation at the significant step up in the Group's operations.

GARBAGEMAN

Fahim Uddin Shuvo, Founder and CEO of GARBAGEMAN started the company with the vision to bring the waste management system of Bangladesh in order, being an architect. He incorporated modern solutions to his service, to provide eco-friendly and efficient waste management solution. He dreams to utilize waste as a key resource and make significant contribution towards a cleaner Dhaka.

Source of inspiration

Fahim Uddin Shuvo, founder of GARBAGEMAN is an architect who started this venture from sense of obligation towards the community. He saw that there is a huge issue of lacking in waste disposal in a megacity like Dhaka, which he thought needs to be rectified. He was looking for innovative means by which he could solve the waste problem of cities. His mission in simple terms is to establish Garbageman as a trendy waste recycling company and his vision is to utilize waste as a key resource and make significant contribution towards a cleaner Dhaka. Fahim Uddin Shuvo observed the patterns of waste cycle within households. From the buildings, waste ends up in landfill sites by using vans which is a one way stream. He noticed that 70% of the waste products is comprised of food waste, which is not technologically difficult to recycle. Recycling process is dependent on the mindset of people. He realized that if he could take his idea to policy level and change the behavioral pattern of people, it could make a significant difference. After all, architecture is about finding innovative solutions to problems of built environment. He wanted to engage people to work towards a sustainable city.

Initially, Fahim Uddin Shuvo collected waste from 12 families within his building for six months. He gave each household two buckets where they disposed all their waste materials separate on source. After collection, he segregated the waste further and converted the organic waste into useful fertilizers. By watching youtube videos and by taking examples from other countries, he realized that the process could be turned into a business model. Without monetary exchange, the idea would not be sustainable. Soon enough, Fahim started to think ahead by pitching his ideas. His experience from the roof top work pushed him to think harder. Although the company is still a sole proprietorship,



Fahim Uddin Shuvo
Founder and CEO, GARBAGEMAN

he wants to start fully fledged operations within the current fiscal year.

The formation process

The journey was exciting as the venture began to approach various organizations for collaborations. The founder, Fahim Uddin Shuvo began to pitch his business idea for the first time in Grameenphone house on an event named “startup weekend” organized by techstar and whiteboard, and his team won that business idea competition. Gradually, he moved on with his idea to other platforms such as GP Accelerator and YY Goshti. He got inputs and feedback from numerous experts in the field which made him highly motivated.

New ideas popped into his mind as he started to think from different perspectives. As a final boost, the company got a grant from the ICT division, startup Bangladesh idea project to get started with the venture.



How it operates

GarbageMan focuses on bulk generators including commercial entities such as hotels and restaurants and universities. The idea is to collect waste, separate waste into organic and inorganic components and supply to manufacturers. The business model would sustain through collection and selling fees. Very few industries work with organic waste on a small scale. Thus GarbageMan planned to collect the organic waste and turn it into compost that can be sold to rooftop gardeners. This has already captured a significant market through large online sales. On the other hand, plastic waste is sold to large recycling. GarbageMan currently is undertaking Research and Development to allow for customization of inputs under controlled conditions for a variety of crops.

GarbageMan has a processing plant that starts operations at 7 pm. The timing is set in this matter because of the waste cycle of households. Waste is generated throughout the day till 7-8 pm until the kitchen is closed. If the company collected waste during the day time, a large quantity would remain uncollected, leading to high contamination levels. Currently there are 5-6 workers working at the plant. This night shift gives them the added flexibility to work at other jobs during the day. Currently the company processes 300 kg of waste every day from Uttara. The plant produce 1200 kg of fertilizer every month and price of per kg fertilizer is BDT 55.

Planning beyond the horizon

A Netherland based academic institution “TUdelft” is providing a plastic recycling DIY machines made by “precious plastic” for the company. It is a prototype which can enable GarbageMan to process plastic on its own. Currently it is dependent on a chain of local companies for the process but the founder has the goal of becoming an aggregator by formalizing the entire supply chain process. If that happens, the company can directly go to the plants that recycle plastic, without dependency on local companies. Currently, the company’s technological operations is also being overlooked by ‘Monster Lab’, a Japanese multinational software company. GarbageMan will get its beta version of the app by the end of April. It is like a ‘UBER’ app for waste. One can schedule a call to collect waste from their homes. The aim is to build an integrated system of store and supply to other manufacturers. However, a key problem that remains is lack of data regarding waste generated.

GarbageMan currently has a timeline. It plans to sign up with City Corporation and engage in investment hunting by June 2019. At the moment, it is getting the

prototypes ready and focusing on brand value. After strengthening its core aspects, it will take bigger steps. It aims to be fully functional in Uttara and establish a factory with capacity of 20 tons by 2019.

Roadblocks of pursuing mission

Since the business model is based entirely on collection, it is difficult to scale up. The process is continuous and requires operational efficiency to ensure quality. The target is to make the business scalable within the fiscal year and this requires practical space. Currently, the company is focusing on government deals to attain land sites. It is also crucial to change the mindset of the people. Although technology is present, the difficulty lies in dealing with people with the right kind of approach. Another challenge is introducing incentive mechanisms to encourage people to dispose waste in the right manner.

How it will be?

There is no doubt that this is a very profitable sector. It is essential to think about recycling process from a societal perspective as well because urban waste is being generated at a substantial rate, nature fails to decompose naturally. If the young generation does not have understanding of the situation, crisis is inevitable in the future. Along the demand side, with the growing sense of health consciousness among people, there is a shift towards rooftop gardening, where organic fertilizers are used in large numbers. Moreover, large corporate houses often need to get their documents disposed, which requires full confidentiality. Thus, we intervene by recycling in a way that provides secrecy. GarbageMan also hopes to associate a ‘trendy’ image with recycling so that people behave in ways that are environmentally friendly.



WHY MID-LEVEL MANAGERS FROM CORPORATIONS ARE GOING FOR STARTUPS?

In today's world quitting jobs for startups by mid-level managers is becoming a common trend. This number is increasing rapidly which is not preferred by the corporations. Different factors affecting the decision of mid managers to establish startup.

Motivation behind Start Ups

A research of Harvard Business Review shows that the leading reason behind this trend is to maintain work life balance. Most of the former managers addressed that working at the management does not give so time and space for personal life. They do not want to spend all their time in corporations. Thus, getting into startups gives the flexibility for maintaining their personal lives. Another important reason is at some point of their career these people want to focus on their niche abilities and want to do something to develop those particular skill set. They want to use their superiority on certain skill and get something out of it.

Money is also a big factor for anyone especially for those who are at a very important position in a corporation with a set of targets. Some of the managers were not happy with delayed and uncertain paychecks. Therefore managers were willing to leave corporations and establish startups where they can have larger expected returns. Another important reason for the top level managers for quitting jobs is autonomy. Even though they operate in the management of corporations, they have certain limitations for everything. Mid-level managers look for autonomy to explore their capabilities and capacities. Thus managers are often dissatisfied to work in a corporation because they can't work independently. Beside managers work hard to meet the target set by corporate, which in some point make these people feel think that the effort they put into the corporation is enough to start their own venture.

Global Startup Trend

According to a recent study by MIT, the average age of a successful company founder is much older than you might think. The study, which was conducted by MIT Sloan professor Pierre Azoulay and PhD student Daniel Kim, analyzed 2.7 million people who founded companies between 2007 and 2014. According to the results, the

Insight of Startup Trend

- Average age of entrepreneurs who started a company is **41.9 years**
- Founders of high-growth startups are even older, average **45 years** of age
- Idea of all successful owners of startup being **20 years** old is a myth
- Chance of 20 years old owner to succeed with their startups is **0.001%**
- **24%** of the founders of startups think that bureaucracy is a hurdle in South Asia.
- In a survey in India **56%** of managers are considering leaving current jobs to start their own business

average age of entrepreneurs who started a company was 41.9, and the average age of founders who started a high-growth company is even older, at 45 years old.

The idea that most successful startup founders are 20-something entrepreneurs is more of a persistent Silicon Valley myth. Though in reality those entrepreneur exists, but statistically it's rare. The study also examined the age of entrepreneurs in sectors like specialized tech employment, venture capital investing, and patent firms, which yielded similar results: The average age of these people, too, was somewhere in their early-to-mid forties. A key finding is that successful entrepreneurs globally are middle-aged, not young. Founders in their early 20s have the lowest likelihood of successful exit or creating a 1 in 1,000 top growth firm- according to a study.

India Moving Forward with Startup Ecosystem

India is making history in creating startups. Last year itself there 3000+ new startups has evolved in their

Startup Ecosystem. The society was not once ready to take entrepreneurship positively in past but now the situation is totally different. Indian Society was conservative on leaving a settled job and start a venture, and funding was huge issue in India. But now, funding is easier than before as funding have become more accessible. Beside creativity is actively encouraged and more people are getting into the startup culture. Entrepreneurial ambition among the workforce is highest in India.

Around 86 per cent of the survey respondents indicated that the ecosystem to run a startup was favorable in India and 84 per cent said the Indian Government actively supports new startups in the country and provides a favorable entrepreneurial climate.

Tough Road of Startup

Startup marketing is not like traditional marketing of established companies. Because, established companies are already familiar to them. But for startups it is totally different. Startups need to make their place among people with their marketing strategy. Another trouble startup problem is funding. Though there are many options of financing available for the startups but still those option might not be enough for them. Qualified person is not available for the startups to join. Management of startup might be weak and may lack leadership skill. Sometimes the founder who was successful in the corporate environment fail to grab the flow of startup.

What does it mean for Us

Although the start-up ecosystem in Bangladesh is still at its nascent stage, many of those that have been established

here conform to the trend. There is light at the end of the tunnel of Bangladesh's start-up ecosystem, and there is immense scope to nurture this. As both public and private sectors have been showing interest in supporting the entrepreneurs in recent years, it is high time to establish a national level collaboration to foster the spirit of entrepreneurship. People jump to the assumption that funding is what the start-ups need most, but in reality they need a wide-range of support including access to facilities or resources, advice from sector-experts, mentorship and office space. As different players from diverse industries are working in this sector, it is important to leverage each other's networks for greater synergy.

Added to this, in the start-up ecosystem, our expat community can contribute with expertise and knowledge. Their support may include offering investment, providing mentorship, and sharing technologies, best practices, and partnership opportunities in their respective countries. These expat communities can also bring many incubators, accelerators and VCs from around the world to Bangladesh boosting the local start-up ecosystem.

Many of the mid-level managers have started their own ventures in Bangladesh. Bijon Islam, Cofounder and CEO of LightCastle Partners; Mustafizur Rahman Khan, cofounder & CEO, Startup Dhaka and Ashiqur Rahman, founder and CEO of Homechef are from the successful ones who left started their own venture to pursue their dream. Bijon Islam and Mustafizur Rahman Khan left their job from very renowned multinational organization to pursue their dream. We have covered their story in our Exclusive Interview section to highlight their success story, struggles and motivation to keep going for their dream.



FINDING LIGHT IN DATA AND ANALYTICS



Bijon Islam is the cofounder and CEO of LightCastle Partners, an organization that focuses on creating data-driven opportunities for growth and impact for development partners, corporates, SMEs and Startups. Previously he worked with Citibank, N.A. and Citi Foundation.

Bijon Islam

Cofounder and CEO of LightCastle Partners

Academic Background and Corporate Career

Graduating with a bachelor's degree from IBA, University of Dhaka, Mr. Bijon Islam joined Citibank, N.A. as a Management Associate – Citi's leadership development program. As a MA he got exposure in Treasury, Corporate and Investment Bank, Finance and Transaction Services before being placed in the Business Planning and Analysis Unit where he became the country lead after his supervisor left.

In Citi he worked in a variety of episodic deals including Bangladesh's first Interest Rate Swap, Equity Convertible Bonds, Largest IPO, Microfinance Securitization and Block Equity Trades. After graduating from the MA program, his chief responsibility revolved around leading the strategy planning and analysis unit. Working with regional teams across Singapore, Hong Kong and India, he played a major role in aligning Bangladesh as an important piece in Citi's growth strategy in Asia. Due to outstanding performance, he received the CEO Excellence Awards for two years in a row. During his time at Citi, he also completed Executive MBA from IBA, DU as well in Finance.

Motivation behind establishing LightCastle Partners

Over the last decade the world has grown through an interesting phase and more so because young business or more glamorously known as Startups have become billion dollar entities leaving behind century old organizations. The trend was apparent in emerging economies as well with Startups utilizing technology leapfrog to growth hack. Even in neighboring India, businesses like Flipkart were moving into the billion dollar club within a few years.

At the same time, Mr. Bijon was dealing with businesses on a daily basis in his work and tried to understand their revenue model. In the process he personally also got interested in playing the sport himself.

In 2013 he decided to explore opportunities outside the conventional domain and reached out to his B-School batch mates Zahed (then working at HSBC), Ivdad (ex-StanC, BYLC, who was a leaving for his MBA at US) and Saif (he had worked in Asset Management before working in an ICT company). They figured out an intersection between their passions, expertise and market need, and cofounded LightCastle Partners to bring "Business Data and Analytics at your Fingertips". Absence of quality data for Bangladesh coupled with the fact that India was going through an Analytics wave were important parameters when they selected the business model.

The demand for Data and Analytics were increasing – with second generation businesses the new management were more open to data-driven decision making. They started by providing market data mainly to MNCs before diversifying to local business conglomerates. They invested in data collection platforms including setting up a real-time consumer research platform, LightCastle Data (later on building offline data-collection capabilities as well). They now use hybrid methods and aided interviews for data capture and their geo-location apps and technology give them better control over quality. Moving forward they diversified into advisory services and developing business models and solutions based on data. Currently they define themselves as an organization that "Creates data-driven opportunities for growth and lasting impact for Corporates, Development Partners, Startups and

SMEs”. Over the last six years they have worked with 100+ clients in 150+ engagements and expanded to a 30+ member team.

From Job to Venture: the Trade-offs

Risk-Return Trade-off: Before Mr. Bijon left his job in the investment bank, one of his seniors had stated his pessimistic opinion about the switch from job to entrepreneurship in terms of risk-adjusted financial returns. Added to that was the statistic of 90% of companies dying out before reaching the 5th year. The latter has been countered as LightCastle Partners are in the 6th year now. However, no one knows if one can make it unless he or she tries, so the situation is kind of like Schrödinger’s cat.

Absence of Support: To him, this neither means infrastructure – incubators or access to finance – nor favorable government policies or support from the market, businesses or society. The most important support comes from ones’ family and friends. Support from his mom and dad pulled him through when he left his job. His close friends did not tell him that he was wasting his life – they joined him as business partners instead. This is what is needed to push someone and explore. His mom also hypnotized that he would never get married once he left a job however, his wife Sabrina was kind (foolish, according to him!) enough to marry an entrepreneur and support him. It may seem ironic given she is top in everything she does.

Short term loss and long term gains: There is a short term opportunity cost in terms of monthly cash inflow (since there is no salary) or a career path. This period is stressful as one needs to figure everything out in meeting daily needs, and it becomes more difficult to digest when ones’ peers are seen going up the corporate ladder, getting posted worldwide and taking exotic vacations. However, if one is successful and perseveres, the long terms gains are there. This brings up exactly the point, one needs to have bet on ones’ future and have a long-term view, not even medium term, and that is something difficult to have when facing the heat of running a business.

Self-preparation before taking up this venture

The partners wanted to build something that they were passionate about, had a market demand and they had collective expertise in. All three of them had background in working with lot of data and knew the pains of absence of data in daily work. Personally for Mr. Bijon, his tenure at Citi helped him set the foundation. Rotating in different departments, he got a solid understanding of how an organization works plus also got to see various industries that Citi’s clients operated in. After his placement in

Business Planning unit he got exposed to huge volumes of data and understanding how those could unlock tremendous value for organizations. Additionally, there were always multiple projects going on and he learned project management and execution from team members. Lastly, his volunteer works and ECAs during his university days also helped him get a jumpstart.

Vision behind the venture

The tagline when they started was “inspiring business, boosting economy”. Six years later they are still working with the vision of Boosting Economy, Inspiring Businesses and Changing Lives. They believe Bangladesh and other emerging economies will unlock great values by engaging in private sector development. To do that they have the mission of “Creating data-driven opportunities for growth and impact”. To execute that mission, they work with development partners like ADB, IFC, Gates Foundation, USAID, UKAID, Syngenta Foundation and top tier local/international corporates to develop market studies, strategy papers, consulting and investment advisory support. For SMEs and Startups they run accelerator programs all around the country as well as support them in capital raises. Lastly, they are investing in data capture and analytics technologies so that they and their clients always have access to valuable market insights and quick fire analytics.

Excitement after launching LightCastle

The name LightCastle was not there at the beginning. Interestingly the company’s first name was “Leapfrog” – idea was that they would help the economy escape development cycles and grow at higher rates. They first launched this out of their bedrooms and decided they were going to have a website first and think about offices afterwards. There was a big photoshoot session at Mr. Bijon’s house – his dad took all the pictures, the dining table was camouflaged to look like board room table and they launched the website – which then had the four of them and their advisors. High level advisors including their professors at IBA, MDs of banks and serial entrepreneurs like Mr. Affan Mahmud kindly lent them their names so that the website looked professional. Now when he looks back, he misses those early days and wonders how clueless they were back then about running a business – not having a concrete product idea or any customers or even any marketing strategy but happily building websites and social media pages.

Long way from there to where they are now but Mr. Bijon will forever remember the fun they had, late night stayovers to chalk out business ideas (apparently which mostly consisted of a lot of eating rather than anything else), getting their first client, writing proposals, raising their seed capital

(thanks goes to Mr. Samad Miraly from Olympic Industries, Mr. Fayaz Taher from Fortuna Group and Mr. Mustafizur R Khan from Startup Dhaka coming in as investor directors and believing in them), getting their first office, moving to a bigger office and growing together as a team.

Stumbling blocks after initiation

When one goes to run a business for the first time, problems are faced left and right. As first time business entrepreneurs they faced problems figuring out from how to market to clients to how to set-up lunch system in offices. However, one of the biggest problems they faced was not getting paid by clients in time or not being paid at all. During their first year of operations they lost more than BDT 6 million in accounts receivables. Those were big groups or companies and till date there is very little they can do. Even large multinationals and big global consulting firms who are their clients pay them often 6 to 12 months late. Such delays in payments hurt the growth of the business as they have to finance their working capital from retained earnings or own capital. Over time they reworked their client strategy and targeted clients who have better payment records but for a young company taking such a huge write-off in the first year was a big set-back.

To those feel like quitting mid-way through their own startup

It is really tough at times. The commitment one needs to put through, the number of hours, short term sacrifices in cash/liquidity, discount on life-style, mismatch in lifestyle with ones' peers, client dropouts, work deadlines that has become irrelevant – it cannot be said that things are easy. However, three things that have always put Mr. Bijon through – the support from his family – his dear wife, his Mom, Dad, his kid brother; support from his business partners (Ivdad and Zahed who put in excessive long hours) and his awesome team and positive encouragement from their clients.

Contribution of LightCastle in its sector

LightCastle is here to take Bangladesh and other emerging economies forward by creating “data-driven opportunities for growth and impact”. For corporates they are doing market research, business strategy consulting, investment advisory to expand business, raising capital and giving them un-biased authentic market intelligence. With their development partners they are helping them assess impact opportunities, build sustainable business models, private sector engagement and driving Sustainable Development Goals. For SMEs and Startups, they are running accelerator programs, supporting incubations, building capacity and helping to raise investment capital. Lastly, for the government they helped build the country’s first open data portal and now they have opened the country’s first one stop source for business data at www.databd.co. At the end they continue to work hard every day to play a role in the growth story of Bangladesh and emerging economies.

Take on the trend of “mid-level managers quitting corporate job to establish their venture” in Bangladesh

Mr. Bijon suggests to take the leap of faith. It is not easy but can be very rewarding. Compared to a few years back there are examples of many companies which have corporate managers leaving their jobs to establish their own firms. Also, that training that one has received in an organization would come in extremely handy as one establishes ones' own company and try to scale. The Bangladesh Play is an exciting opportunity now – with the country’s growth, tech adaptable large demographic bulge (50% below 35), density dividend, many problems to solve, middle class growing at double digits rates, favorable geography – India on one side and China on the other, globalization – the scopes are endless. So take the leap or support the ones who do – either way Bangladesh grows towards an advanced economy. That is what everything is about!



A SUCCESSFUL BLEND OF VERSATILITY



Mustafizur Rahman Khan, Founder and CEO of Startup Dhaka is an entrepreneur, angel investor, Tedx speaker and a VC partner with over 22 years of experience of heading teams across diverse industries in Asia. He is Investing in early-stage startups in Bangladesh; managing startup accelerator and incubator programs, marketing, portfolio management; entrepreneurial community development through startup Dhaka.

Mustafizur Rahman Khan

Founder & CEO, Startup Dhaka.

Motivation behind Startup Dhaka

Completing undergrad from Coe College in Bachelor of Arts & Business Administration in 1996, Mustafizur Rahman Khan completed his Masters from Nanyang Business School in 2005. He served 7 years in HSBC Singapore as SVP in marketing department. Later he left job in 2013 and came back to Dhaka to launch his own company, Startup Dhaka. Alongside the company Startup Dhaka, he is the managing partner of IDLC venture capital fund.

Back in 2013, nobody was aware about start-up activity in Bangladesh because the concept was unfamiliar to people. Startup Dhaka along with few other companies started to promote entrepreneurship as an option to pursue ones career. Slowly people started to look at the existing market gaps and came up with scaleable solution in Bangladesh. People started to realise that no economy in the world can accommodate young graduates with enough employment opportunities. There is always a mis-match in supply and demand of jobs, causing large scale youth unemployment. Startup Dhaka team wanted to address this problem by creating an inclusive entrepreneurship ecosystem that promotes skills training and funding access to innovators and under represented markets in Bangladesh in order drive economic growth.

Vision and Startup Ecosystem Development Process

Mustafizur's vision was to build an ecosystem that is digitally driven. Through his platform Startup Dhaka, he tries to raise awareness among people about startups. Startup Dhaka is a platform that connects entrepreneurs, tech talent and investors

through events, content, and venture acceleration. Over last 5 years, it has worked with over 1500+ startups, hosted 35+ over major startup events, arranged funding for over 68+ startups. Their company is made in Bangladesh for Bangladeshi startups who faces unique challenges in the local market.

In recent past, the Government has played a significant role in making a solid foundation path for startups. Government digital approach is taking the country through a digital transformation. For instance, introduction of 3G and later the roll of 4G connectivity opened up the doors to various local digital services like Shohoz, Pathao, Bongo, Sheba.syz, etc. However, access to growth capital to scale such businesses are limited as Bangladesh is yet to offer Venture Capital fund. To support such startups, founders of Startup Dhaka have also partnered with IDLC to launch a venture capital fund to support emerging and growth stage technology companies with smart capital.

Adjusting with the new lifestyle

There were certain tradeoffs to begin the journey with Startup Dhaka which included giving up a 6 digit salary and a secured life which every person can dream for. However, after working for seven years in financial institution, he sought newer challenge. Fortunately for him, there was no peer or family pressure, they were all very supportive throughout his journey. When he started on this road there was no blueprint or local experts to seek help from because startup was a budding space. Mustafizur saw how the economy of the west transformed from analog to digital in the early 90s. He predicts Bangladesh will have same kind of transformation and he just wanted to be there when it happens. Fortunately for him, the changes are

happening, the country is an inflection point where many of its sector will be transformed by digital connectivity from health, agriculture, education etc.

However, the new economy demands new kind of culture, work attitude, mindset and talent. These requirements from startup culture are very different compared to large organisations. Startups move fast and scale very quickly through a continuous cycle of experiments. Often times they fail also very fast, where the biggest business learning takes place. Since startups are constantly building, it brings new challenges to the teams as well as rewarding learning opportunities for these new knowledge workers.

Stumbling Blocks for Startups

Doing business anywhere in the world is tough, it is a lonely journey. Fortunately founders of Startup Dhaka are united by the same mission which made their journey a little more bearable. Every day is challenging for them but they have unique knowledge related to how the technology space works in Bangladesh. That insight cannot be found in books neither can it be replicated from Silicon Valley. One needs experience of operating with limited resources, solving problem for real customers, scaling business and facing investors to secure fund to thrive in the context of Bangladesh. These insights have helped the Startup Dhaka team to navigate the emerging sector. Mustafiz commented that humans are social animals and that people tend put a lot of value on what others perceive. Being human everyone has to deal with positives and negatives all the time. The way people attach value to certain things, will determine how they will prosper in life. If someone fails, especially in the case of an entrepreneurs and others comment negatively, it definitely has a negative consequence for them.

In such cases in startup environments, Mustafiz advised young founders to be strong and not let any negativity affect them. Words can indeed be very powerful and thereby, it is wise not to place too much value on what people say, most importantly, they should not be defined by those words.

Contribution to the startup ecosystem

If anyone search about startups in Bangladesh in Google, first name that comes in the list is Startup Dhaka. Over the years they have build a track record to be in this position. Startup Dhaka started their journey through a documentary called 'Start Dhaka' which captured people's imagination. Their film had such an impact on some people that they left their job in Canada or USA and came back to Bangla-desh to start their own company. This goes to show the impact of a powerful story.

“Startup Dhaka team hopes that it can continue to inspire people to join the startup movement in Bangladesh. They wish young founders will use real innovation to solve existing problems in Bangladesh and make businesses out of these untapped opportunities.”



“BANGLADESH IS WELL ON ITS WAY TOWARDS BECOMING AN UPPER MIDDLE-INCOME COUNTRY WITH ABOUT 80 PER CENT OF THE POPULATION HAVING ACCESS TO GRID ELECTRICITY.”

DANDAN CHEN, World Bank, Acting Country Director for Bangladesh and Bhutan on the event of approving fund to expand renewable energy generation

“In order to ensure sustained economic development, it is essential that the country is seen as a safe harbor for foreign investment, particularly in sectors that are critical towards this growth: energy, infrastructure, manufacturing and agriculture,”

S Vijay Iyer, vice-president and chief operating officer, MIGA on enhancement of private sector investments

“Bangladesh is going to be a ‘Bright Delta’ for the global economy. Indeed, HSBC economists predict that by 2030, Bangladesh will be the 26th largest economy globally.”

Dr. Ahmad Kaikaus, Sr. Secretary, Power Division, Ministry of Power, Energy & Mineral Resources on possible investment of China

“Currently, we have the capacity to cater to USD45 billion worth of garment items.”

Siddiqur Rahman, president of the Bangladesh Garment Manufacturers and Exporters Association, on exports jumping 10 percent in February.

“YOU KNOW BANGLADESH IS AT A BAD SHAPE IN THE WORLD BANK’S EASE OF DOING BUSINESS REPORT. SO, IF THE GOVERNMENT DOES NOT WORK TO ADDRESS THE INFRASTRUCTURAL CONSTRAINTS, IMPROVE WEAK ENERGY AND POWER SUPPLY SITUATION, AND CARRY OUT TAX AND BANKING SECTOR REFORMS, PRIVATE INVESTMENT WILL NOT GO UP”

Nihad Kabir, President of the Metropolitan Chamber of Commerce and Industry (MCCI) on unfavourable business climate and low-quality public investments in Bangladesh

“FOREIGN EXCHANGE RESERVES HAVE BEEN ERODING SINCE LAST YEAR. IF THE SITUATION PERSISTS, THE COUNTRY WILL HAVE TO SEEK A BAILOUT PACKAGE FROM OTHER NATIONS AND MULTILATERAL AGENCIES WITHIN THREE YEARS.”

Ahsan H Mansur, executive director of Policy Research Institute, on shrinking account deficit

THINGS TO KNOW ABOUT CREDIT CARD

Credit card has become essential nowadays for all, especially to the younger generation. But although it is a great thing to have around, as in an emergency the credit card allows the user to access money immediately, credit card can become harmful without careful utilization of its facilities it.

How to get Benefit from Credit Card

- **Buy things online:** Credit card is a really useful tool to buy things online
- **Spreading the cost of purchase over months:** Credit card is useful when someone is planning to purchase something with an EMI to reduce big cash outflow in a single month
- **Incentives and discounts:** credit cards usually come with a variety of offers when used to make payment, such as free product or service, discounts from stores, lounge access at airports etc.

What to Check about Credit Card

- **Annual Percentage Rate (APR):** This is the cost of borrowing on the card, if the whole balance is not paid off each month. It can either be a fixed rate or a variable rate that is tied to another financial indicator. However, even a card with a fixed interest rate can change based on certain triggers, such as paying a card late, or going over the credit limit. Go for the card which has, or appears to have, the lowest APR.
- **Credit limit:** This is the amount of money that the credit card issuer is willing to let the card holder borrow. It is undesirable to find oneself in a situation in which he or she is close to maxing out the credit limit. It can hurt the credit score, carries the risk of getting credit limits cut to an amount that's lower than the current, and also there is a penalty when that happens.

Mistakes credit card users usually make

- Treat credit cards as **free money**
 - Taking on too much **debt**
 - Making **minimum monthly** payments only
 - **Not knowing** credit card terms
- **Minimum repayment:** This is an amount that has to be repaid if the balance is not paid off each month. This amount should be minimum.
 - **Annual fee:** Some cards charge a fee each year for use of the card. The fee is added to the amount due and interest on the fee has to be paid as well as on the spending, unless it is paid in full. But if spending is high enough, a fee card may net higher rewards.
 - **Charges:** These range from going over credit limit, for using the card abroad and for late payments.
 - **Introductory interest rates:** Initially the rate is low or there is none at all. The rate then increases after a certain amount of time. Look at how long the introductory rate lasts as well as the interest rate it changes to at the end of the introductory period.
 - **Loyalty points or rewards:** Check for the variety of shops or transactions where these rewards can be used. Also, the card should offer loyalty points for those goods or services that are relevant for the card holder. Rewards can also include cash back offers.

The attractiveness of a credit card comes down to the spending habit. There is not one particular card out there that fits the bill for all. Careful evaluation of the pros and cons of a credit card before getting one can make life more convenient.

Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market faced further correction during March, continuing the down streak of February. During the month the broad index DSEX declined by 3.9%, losing 219.9 points. Blue chip index DS30 lost 1.6% as well, while Shariah index DSES dropped by 3.0%.

Among the regional peers, Pakistan and Sri Lanka lost 1.0% and 4.5%, respectively during the month, while

Vietnam gained 1.6%. Meanwhile, MSCI Frontier Markets Index gained 1.0%. Vietnam showed the most encouraging longer term track record with a 5 years' return of 65.8%, while Bangladesh yielded 22.3% return during the same period. In the meantime MSCI Frontier Markets Index yielded 3.7% return.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, February, 2019	Return*					
		1M	3M	12M	3Y	5Y	5Y
Bangladesh							
DSEX	5,491.9	-3.9%	2.0%	-1.9%	26.0%	22.3%	20.3%
DS30	1,967.2	-1.6%	4.6%	-6.6%	19.3%	22.7%	18.0%
DSES	1,275.5	-3.0%	3.5%	-3.0%	21.2%	N/A	N/A
Peer Countries							
Pakistan (KSE 100)	38,649.3	-1.0%	4.3%	-15.2%	16.6%	42.3%	51.5%
Sri Lanka (CSE - All Share)	5,557.2	-4.5%	-8.2%	-14.2%	-8.6%	-6.9%	-2.1%
Vietnam (VNI)	980.8	1.6%	9.9%	-16.5%	74.8%	65.8%	64.6%
MSCI Frontier Markets Index	718.2	1.0%	6.5%	-15.6%	19.9%	3.7%	4.0%

* All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

Liquidity Condition in Equity Market of Bangladesh

During March, the total market capitalization decreased by 0.7%, while free float market capitalization decreased by 0.8% as well. Meanwhile, average turnover of March 2019 was BDT 4.9 bn (USD 58.7 mn), decreasing by 35.4% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market decreased to 27.4% in March compared to 39.8% of last month.

Table 2: Market capitalization and turnover statistics

Particulars	31-Mar-19	28-Feb-19	% change
Total market capitalization (USD* mn)	48,898	49,267	-0.7%
Total equity market capitalization (USD mn)	41,931	42,290	-0.8%
Total free float market capitalization (USD mn)	16,454	17,015	-3.3%
Daily Avg. Turnover (USD mn)	58.7	90.9	-35.4%
Turnover Velocity~	27.4%	39.8%	N/A

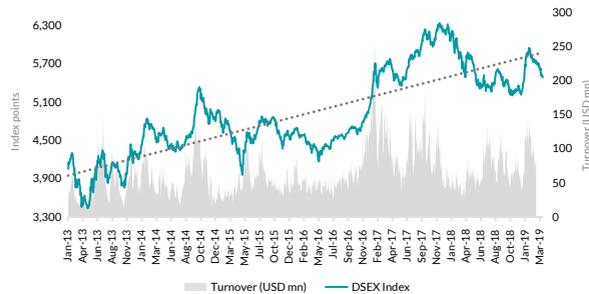
*All USD figures are converted using an exchange rate of 84.25 as of March 31, 2018 as per Bangladesh Bank website.

~Turnover velocity is calculated by dividing monthly total turnover with month-end market capitalization. The figures are annualized.

Historical Index Points and Market Participation Data

Since its inception on January 27, 2013, DSEX yielded a holding period return of 35.4% till March, 2019. During the same period, daily average turnover of the market amounted to BDT 5.6 bn (USD 66.0 mn) (Figure 1).

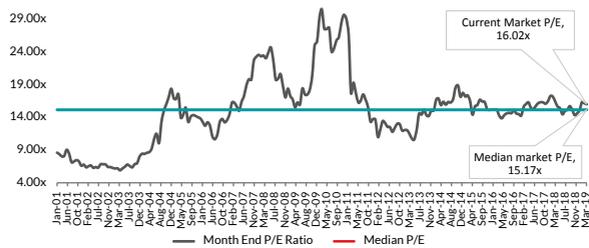
Figure 1: DSEX since inception along with market turnover



Market Valuation Level - P/E Ratio:

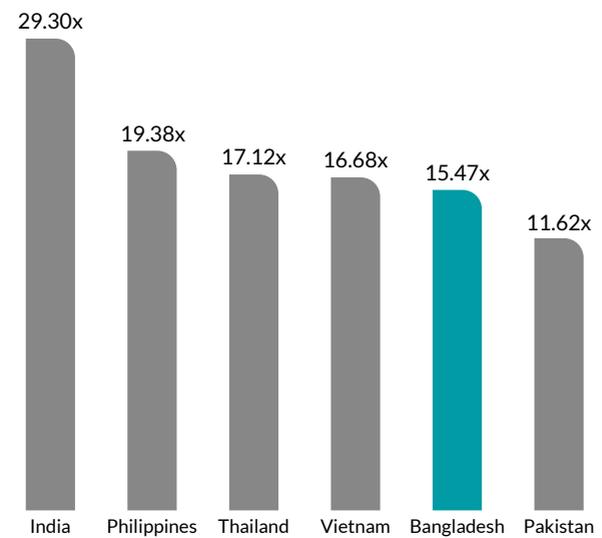
The market P/E decreased slightly to 16.02x in March, 2019 which is greater than 18 years' median market P/E of 15.17x (Figure 2). In terms of trailing 12 month P/E ratio equity market of Bangladesh is the cheaper than most of its regional peers. (Figure 3).

Figure 2: Historical market P/E* and it's median
Current Market P/E in Context of History



*Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their total audited annual earnings.
Source: CEIC, DSE

Figure 3: Current market P/E* of Bangladesh and peer countries



**Trailing 12 month P/E as of March 31, 2019. Source: IDLC, Bloomberg

Sector Performance

Among the major sectors, Food & Allied yielded the highest return, appreciating by 18.2% in March. Telecommunication and Cement followed next, advancing by 3.6% and 0.8%, respectively during the month. On the contrary, Non-Life Insurance faced the highest selling pressure during the month, declining by 11.3% followed by Textile and Life Insurance sector which lost 7.3% and 7.0%, respectively.

The largest sector in terms of market capitalization, Bank is relatively undervalued in terms of P/E ratio. On the other hand, Telecommunication sector has the highest dividend yield of 6.8% among all sectors.

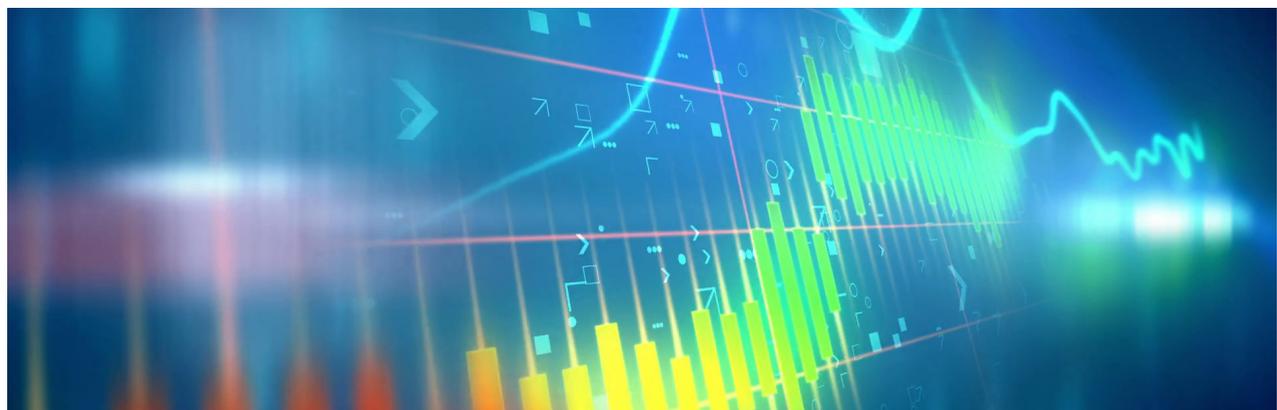


Table 3: Sector performance snapshot

Sector	Market capitalization (USD mn)		Return*						P/E (x)**	P/BV (x)^	Dividend Yield~
	Total	Free Float	1M	3M	12M	3Y	5Y	5Y			
Bank	7,081	3,937	-3.1%	3.1%	0.9%	76.8%	68.9%	10.1	1.0	2.7%	2.7%
Telecommunication	6,865	736	3.6%	16.7%	-3.8%	108.0%	133.3%	16.2	14.7	6.8%	6.8%
Pharmaceuticals & Chemicals	6,305	3,449	-0.5%	5.5%	-0.1%	34.9%	91.4%	18.1	2.6	1.7%	1.7%
Fuel & Power	5,936	1,515	-3.4%	14.2%	41.7%	65.6%	75.5%	13.1	1.7	3.6%	3.6%
Food & Allied	4,038	1,414	18.2%	24.2%	23.9%	64.7%	104.6%	26.8	9.6	1.6%	1.6%
NBFI	2,255	686	-2.3%	1.0%	-1.4%	43.9%	26.6%	22.2	1.9	2.9%	2.9%
Engineering	2,312	1,170	-5.2%	-1.0%	6.3%	19.7%	96.0%	16.3	1.7	1.3%	1.3%
Textile	1,585	894	-7.3%	0.1%	30.9%	58.9%	66.3%	15.4	1.0	1.8%	1.8%
Miscellaneous	1,517	387	-3.1%	20.7%	40.7%	55.3%	185.4%	29.9	1.4	1.0%	1.0%
Cement	1,197	489	0.8%	1.0%	-11.8%	-19.3%	0.0%	33.8	2.8	2.4%	2.4%
Non-Life Insurance	568	322	-11.3%	20.0%	22.2%	81.0%	17.9%	14.2	1.1	2.4%	2.4%
Ceramics	369	143	-8.7%	9.9%	10.4%	12.7%	47.9%	19.7	2.1	1.1%	1.1%
Tannery	328	152	-2.4%	0.2%	5.8%	29.7%	46.5%	16.6	2.5	2.1%	2.1%
Travel & Leisure	250	139	-4.6%	-3.5%	-5.0%	27.2%	-5.0%	20.6	0.6	3.2%	3.2%
Services & Real Estate	214	111	-7.7%	0.5%	-3.8%	-8.8%	68.5%	16.6	1.0	3.8%	3.8%
IT	231	152	-8.4%	-6.0%	9.8%	71.3%	232.0%	20.3	2.2	1.1%	1.1%
Paper & Printing	173	57	-9.6%	-16.1%	25.7%	35.5%	211.9%	26.5	1.6	2.1%	2.1%
Life Insurance	656	316	-7.0%	-11.9%	14.2%	23.3%	-19.6%	14.3	5.4	1.8%	1.8%
Jute	52	38	-2.3%	-6.3%	152.8%	422.3%	515.9%	85.7	15.9	0.1%	0.1%
Market	41,805	16,022	-3.9%	2.0%	-1.9%	26.0%	22.3%	15.6	1.9	3.0%	3.0%

* All returns are Holding Period Return.

** Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their annualized earnings excluding companies trading at an annualized P/E greater than 80.0x.

^ P/BV is calculated by dividing total market capitalization of listed companies with their total book values excluding companies with negative book values.

~ Dividend yield is calculated by dividing last year's declared cash dividend with market capitalization.

Cap Class Performance

During the month of March, all the cap classes faced correction except for Large Cap Class (+3.0%). Despite the appreciation, the Large Cap was the highest dividend yielding (3.3%) class with the second lowest PE ratio (15.6x).

Table 4: Performance of different market cap classes

Cap Class	Market Capitalization of Constituent Companies (USD mn)	% of Total Equity Market Capitalization	Return*					P/E (x)	P/BV (x)	Dividend Yield^
			1M	3M	12M	3Y	5Y			
Large	≥121	82.5%	3.0%	14.1%	10.6%	73.3%	102.0%	15.6	2.2	3.3%
Mid	36-120	11.0%	-4.0%	1.3%	1.2%	29.7%	39.5%	14.2	1.1	1.8%
Small	12-35	5.2%	-6.4%	-1.7%	10.2%	43.5%	70.6%	20.2	1.0	1.7%
Micro	<12	1.3%	-7.1%	2.1%	9.9%	40.3%	52.5%	21.5	0.9	1.6%
Market	-	-	-3.9%	2.0%	-1.9%	26.0%	22.3%	15.6	1.9	3.0%

* All returns are Holding Period Return

Performance of 20 Largest Listed Companies in Bangladesh

Among the 20 largest listed companies in terms of market capitalization BATBC (+22.3%) and DUTCHBANGL (+18.9%) posted significant return. On the contrary, BXPBARMA (-7.5%), PUBALIBANK (-6.8%) and SUMITPOWER (-4.3%) faced high selling pressure during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BRACBANK (+441.8%), BERGERPBL (+309.4%), RENATA (+197.5%), DUTCHBANGL (153.1%) and GP (+145.1%).

Among the scrips SUMITPOWER, GP, TITASGAS, EBL, MJLBD, MARICO and ISLAMIBANK recorded a higher dividend yield compared to that of market. Moreover, SUMITPOWER has the highest dividend yield (7.4%) and lowest P/E (8.0x) among the 20 largest companies.

Table 5: Snapshot of 20 largest companies in terms of market capitalization

DSE Code	Sector	Market capitalization (USD mn)		Daily Avg. Turnover (USD mn)	Return*					P/E (x)	P/ BV (X)	Dividend Yield
		Total	Free Float		1M	3M	12M	3Y	5Y			
GP	Telecommuni-cation	6,558	656	1.08	4.0%	15.8%	-4.9%	109.9%	145.1%	15.7	16.5	6.8%
BATBC	Food & Allied	3,238	857	2.58	22.3%	28.4%	32.4%	85.9%	112.6%	27.2	10.0	1.1%
SQURPHARMA	Pharmaceuticals & Chemicals	2,500	1,639	1.39	-2.5%	5.0%	-6.7%	40.1%	73.9%	16.7	3.4	1.3%
UPGDCL	Fuel & Power	2,332	233	3.16	0.6%	41.1%	224.7%	309.8%	N/A	26.1	7.2	1.8%
RENATA	Pharmaceuticals & Chemicals	1,136	555	0.18	1.9%	4.1%	11.6%	50.4%	197.5%	28.3	6.0	0.7%
BRACBANK	Bank	990	552	1.85	-4.2%	7.0%	0.1%	178.7%	441.8%	15.0	2.6	0.0%
BERGERPBL	Miscellaneous	990	49	0.44	-2.0%	33.7%	71.8%	94.9%	309.4%	50.6	13.4	0.6%
ICB	NBFI	966	31	0.04	-2.9%	0.4%	1.8%	38.4%	8.4%	97.2	2.3	2.4%
LHBL	Cement	567	200	0.54	3.1%	-3.3%	-25.5%	-35.2%	-11.6%	42.8	3.2	2.4%
OLYMPIC	Food & Allied	551	398	0.35	0.0%	7.4%	-13.7%	-11.0%	108.3%	25.2	6.8	2.1%
MARICO	Pharmaceuticals & Chemicals	537	54	0.48	9.7%	19.7%	23.5%	30.0%	52.9%	21.8	26.0	4.2%
SUMITPOWER	Fuel & Power	512	189	0.35	-4.3%	2.5%	25.1%	44.1%	68.1%	8.0	1.0	7.4%
DUTCHBANGL	Bank	506	66	1.88	18.9%	47.5%	86.8%	137.1%	153.1%	10.1	2.0	0.0%
ISLAMIBANK	Bank	497	259	0.18	3.6%	7.4%	-0.7%	32.0%	-0.8%	9.1	0.8	3.8%
TITASGAS	Fuel & Power	449	112	0.06	-1.8%	4.9%	1.8%	2.0%	-38.3%	8.9	0.6	6.5%
BXPBARMA	Pharmaceuticals & Chemicals	405	352	0.16	-7.5%	6.4%	-16.8%	10.3%	112.9%	11.5	1.2	1.5%
MJLBD	Fuel & Power	361	103	0.11	-3.4%	-3.1%	3.8%	40.8%	115.4%	17.2	2.5	4.5%
EBL	Bank	325	222	0.04	-3.4%	3.1%	-2.5%	79.2%	114.9%	9.7	1.2	5.4%
POWERGRID	Fuel & Power	316	75	0.22	0.7%	20.4%	24.6%	13.8%	29.6%	7.3	0.5	2.9%
PUBALIBANK	Bank	308	212	0.04	-6.8%	0.0%	18.2%	83.1%	12.5%	7.2	1.0	1.8%
Market		41,805	16,022	58.67	-3.9%	2.0%	-1.9%	26.0%	22.3%	15.6	1.9	3.0%

* All returns are Holding Period Return.

^ Five years' return is not available for UPGDCL as they were not listed then.

Top Performing Mutual Funds:

Top ten open end mutual funds based on 3 year CAGR outperformed the market during the same period. Among them VIPB Accelerated Income Unit Fund (12.3%) and Third ICB Unit Fund (11.2%) made significant return. However, during 2019, Sixth ICB Unit Fund made the highest return (+8.1%) followed by Second ICB Unit Fund (+6.8%).

Table 6: Top ten open end funds based on 3Y return (CAGR) performance

Name	Asset Management Company	Fund Size (USD mn)	Return		
			2019 YTD	2018	2016-2018
VIPB Accelerated Income Unit Fund~	VIPB	12.8	5.2%	-7.8%	12.3%
Third ICB Unit Fund	ICB	3.9	5.0%	-7.0%	11.2%
Seventh ICB Unit Fund	ICB	5.2	5.0%	-11.9%	10.7%
LankaBangla 1st Balanced Unit Fund	LankaBangla	5.1	2.2%	-2.0%	10.7%
Fifth ICB Unit Fund	ICB	4.4	5.6%	-7.0%	10.4%
UFS-Popular Life Unit Fund~	UFS	9.3	2.2%	-4.6%	10.2%
Sixth ICB Unit Fund	ICB	3.8	8.1%	-9.3%	9.5%
MTB Unit Fund	Alliance	8.7	-5.7%	-4.2%	9.2%
Second ICB Unit Fund	ICB	1.6	6.8%	-7.1%	8.7%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.5	4.2%	-14.3%	7.7%
Market			2.0%	-13.8%	5.2%

~ 2016-18 returns are calculated from inception date in 2016.

The top ten closed end mutual funds on the basis of 5 years (2014-2018) performance yielded positive return on YTD basis. Among these funds, only POPULAR1MF (+1.9%) underperformed the market.

Despite strong performance in March, 2019, the funds are traded at a lucrative discount compared to their NAV. Besides, all the funds also offered higher dividend yields compared to market except for EBL1STMF. (Table 7)

Table 7: Top ten close end funds based on 5Y return (CAGR) performance

DSE Code	Fund Manager	Fund Size (USD mn)	Price ¹ (BDT)	NAV ¹ (BDT)	Price/NAV	Dividend Yield ² (%)	NAV Return ³				Redemption Year ⁴
							2019 YTD	2018	2016-18	2014-18	
NLI1STMF	VIPB	769	12.9	15.28	84.4%	10.9%	5.4%	-8.0%	13.3%	14.6%	2022
SEBL1STMF	VIPB	1,421	11.0	14.24	77.2%	11.8%	5.2%	-8.3%	12.8%	13.7%	2021
GRAMEENS2	AIMS	3,690	13.0	20.23	64.3%	9.2%	8.9%	-1.6%	12.2%	12.4%	2023
IJANATAMF	RACE	3,201	4.4	11.04	39.9%	4.5%	2.2%	-4.5%	7.1%	10.3%	2020
RELIANCE1	AIMS	831	9.3	13.74	67.7%	11.8%	4.7%	-1.1%	12.0%	10.2%	2021
PHPMF1	RACE	3,061	4.4	10.86	40.5%	6.8%	2.3%	-4.9%	8.5%	10.2%	2020
EBL1STMF	VIPB	1,633	7.0	11.28	62.1%	2.9%	4.6%	-3.5%	9.5%	10.0%	2019
POPULAR1MF	RACE	3,311	4.3	11.07	38.8%	4.7%	1.9%	-4.4%	8.3%	10.0%	2020
PRIME1ICBA	ICB AMCL	837	6.0	8.37	71.7%	11.7%	4.6%	-8.6%	7.6%	9.4%	2020
ABB1STMF	RACE	2,781	4.5	11.63	38.7%	4.4%	3.1%	-5.0%	8.5%	9.2%	2022
Market						3.0%	2.0%	-13.8%	5.2%	4.8%	

1 Price and NAV published on March 28, 2019.

2 On last cash dividend declared.

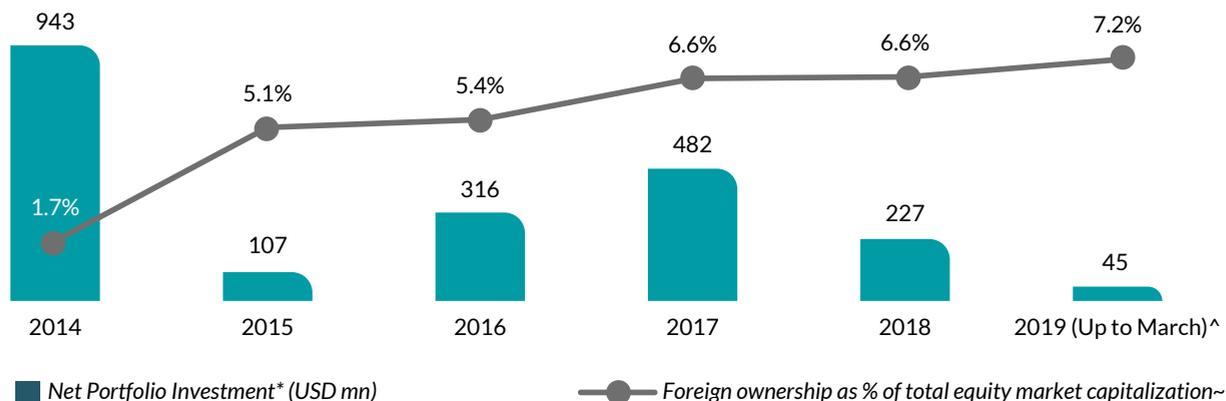
3 CAGR computed for respected periods, except for 2018 and 2019 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4 In reference to BSEC Press Release বিসেসইসি/মুফপার (০৯ খণ্ড)/১০১১/১৫ published on September 16, 2018, tenure of existing listed closed end mutual funds can be extended by another tenure equal to maximum 10 years, provided that the full tenure of the subject fund does not exceed 20 years in total. However, the mutual funds those are not willing to extend their tenure will still have the option to convert or wind up as per rules and regulations.

Foreign Participation in Equity Market of Bangladesh

Over last 5 years, Bangladesh equity market has seen a surge of foreign investment. As of February, 2019 total foreign ownership stood at 7.2% of the total equity market capitalization, which was only 1.7% in 2014.

Figure 4: Net foreign portfolio investment and foreign ownership as % of total equity market capitalization~



Source: DSE and Bangladesh Bank

^The Daily Star

*Net portfolio investment data are as of December of the respective years.

~% of foreign ownership of equity market capitalization data are as of December of the respective years except for 2019

Among all the companies with foreign ownership, DBH had the highest foreign shareholding of 42.9% as of February 2018, followed by BRACBANK with 41.7%.

Table: Top ten companies with highest foreign shareholding as of February

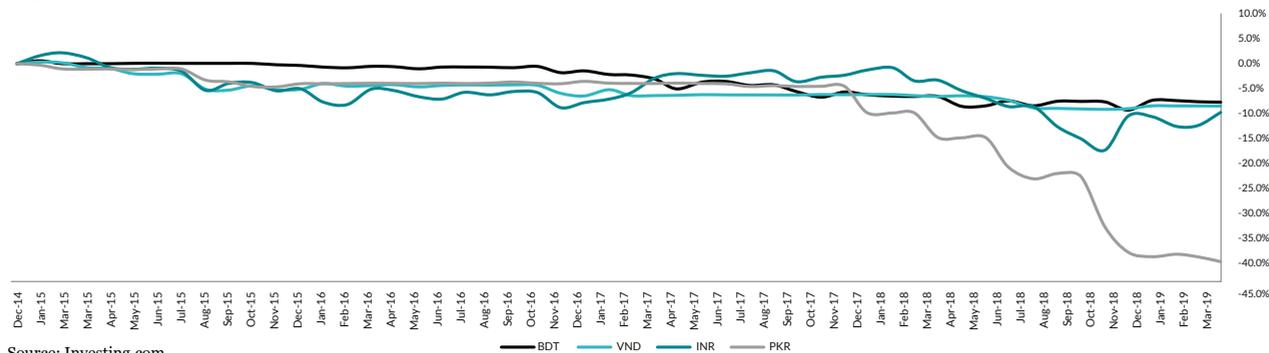
Ticker	Sector	Foreign Shareholding
DBH	NBFI	42.9%
BRACBANK	Bank	41.7%
OLYMPIC	Food & Allied	39.8%
BXPHERMA	Pharmaceuticals & Chemicals	38.6%
ISLAMIBANK	Bank	24.1%
RENATA	Pharmaceuticals & Chemicals	22.4%
MLDYEING	Textile	21.9%
SHEPHERD	Textile	20.5%
SQURPHARMA	Pharmaceuticals & Chemicals	20.1%
VFSTDL	Textile	18.3%

*Source: DSE

Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than the currencies of peer countries. While BDT depreciated by 7.7% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.5%, 9.7% and 39.7%, respectively.

Figure 5: Five year's relative performance of BDT and peer currencies



Source: Investing.com



ব্যবসা ছোট হোক বা মাঝারি
আপনার পাশে আছে

আইডিএলসি এসএমই লোন

