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IDLC MONTHLY

BUSINESS REVIEW

MICRO ENTERPRISE LENDING:

AN OVERLOOKED SEGMENT BY BANKS

IDLC Finance Limited

financing happiness

contents

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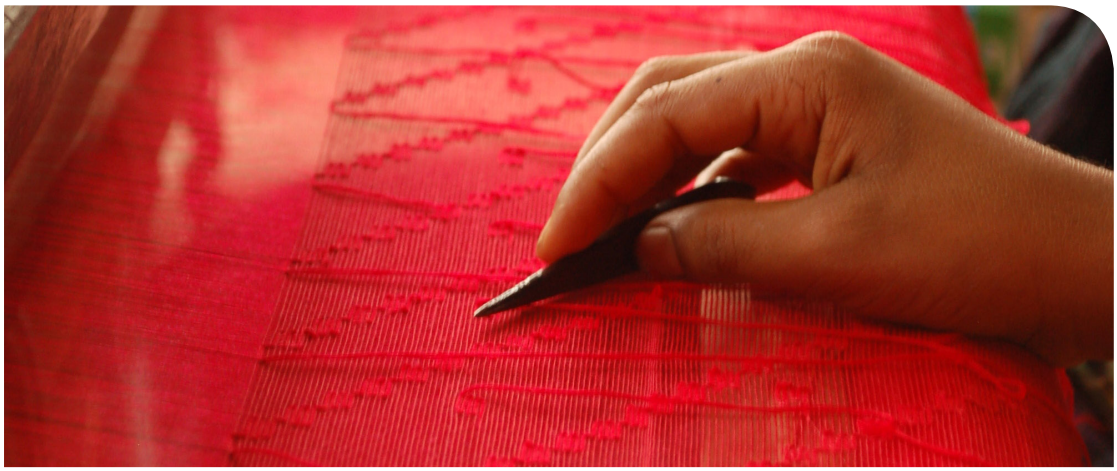
FROM THE EDITOR



Is it high time for banks to prioritize micro lending?

Lending to micro-enterprise is the ancient mode of financing in Bangladesh, rooting back to the 1970s with its emergence by Grameen Bank. Over the years, few notable Microfinance Institutions e.g. BRAC, ASA, Sajida Foundation played a dominant role in providing financing access to these enterprises. Micro enterprise lending is inherently very challenging to lenders because the credit assessment process is entirely manual and it poses a greater risk of default due to low investment. Private commercial banks in Bangladesh have been historically shying away from micro lending. Since 2009, banks' share of microcredit lending never crossed the threshold of 15%. Few phenomena led to this behavior:

- On **scalability front,** the loan size of micro loans are so meagre compared to the average ticket size of private commercial banks. Therefore, in order to be make micro lending scalable enough, banks have to finance a substantial number of micro enterprise.
- On **operational efficiency** front, in order to reach the desired volume of micro enterprises and provided that microcredit assessment is extremely laborious due to lack of data, banks will have to deploy a greater number of human resource and thus incur higher operational cost. At the same time, the operational cost required to underwrite a micro loan is almost same as that of a large loan.

Having said that, a handful of private commercial banks started venturing into micro lending in recent times. Digital adoption in the operational process of micro lending is a way banks can achieve scale in micro lending. BRAC and few other MFIs introduced Digital Field Application (DFA) where the field officers can directly input client data in tab, instead of manually writing down on the sales sheet and then again input in their software. It is high time, banks should penetrate into this market by being digitally innovative. At the same time, regulators should address easing of requirements like KYC, excise duty, trade license and TIN to encourage banks penetrate into this market by making the assessment process cost-effective.

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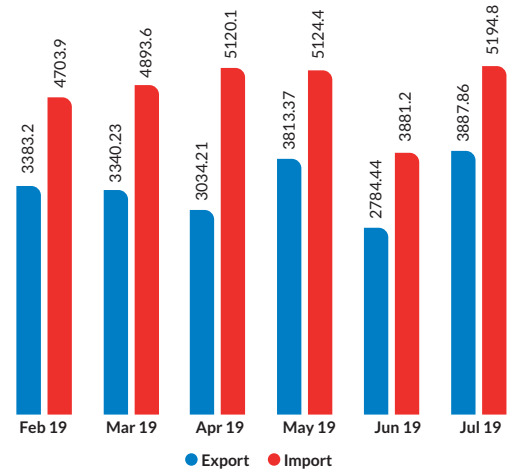
ECONOMY AT A GLANCE

Private credit growth slumped
at 10.6%
in August '19

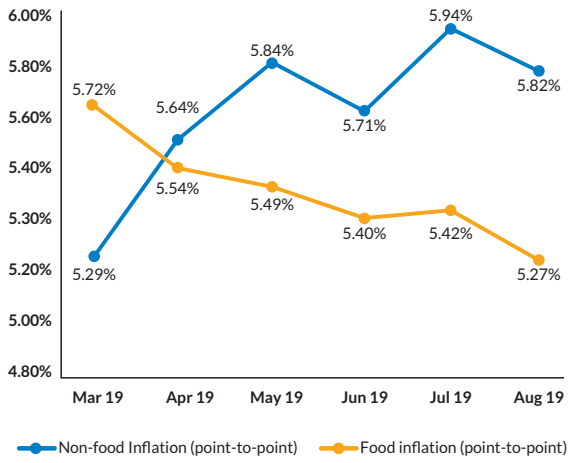
Remittance inflow up
5% y-o-y in USD
1.48 billion
in August'19

Inflation Rate Down
General inflation
5.49% in August'19

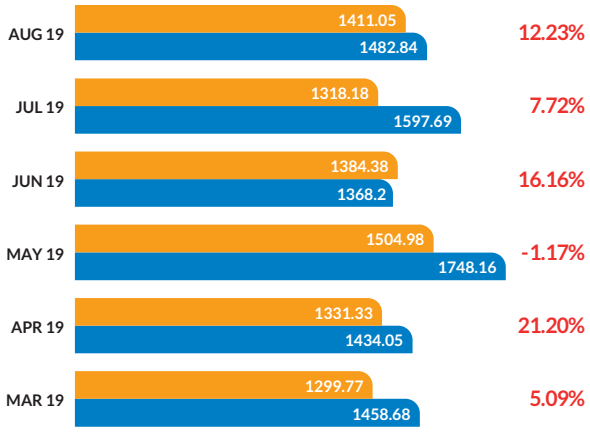
EXPORT-IMPORT
(USD in million)



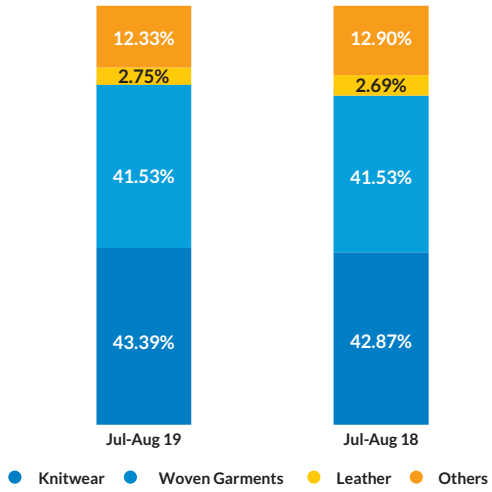
INFLATION



REMITTANCE
USD in million, Y-O-Y % Growth



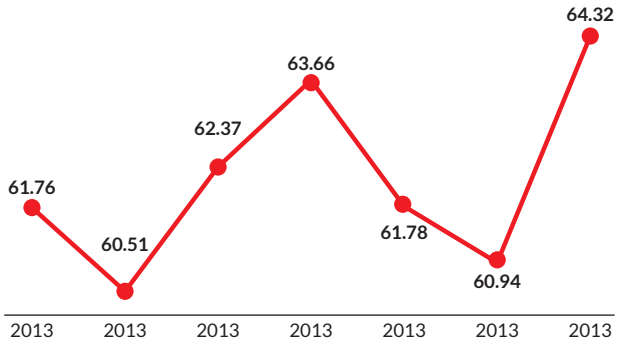
SECTOR-WISE EXPORT



MONTH IN BRIEF

● Value addition of the country's RMG sector stood **at 64.33% in fiscal 2018-19**

In percent, in terms of raw materials import



● Bangladesh made place among **"Top-20 improvers in Doing Business 2020"**, a World Bank Report for making it easier for entrepreneurs to start a business, obtain a power connection and access credit.

● Asian Development Bank forecasts Bangladesh's GDP growth at 8.0% level for current fiscal, the highest in the Asia Pacific region

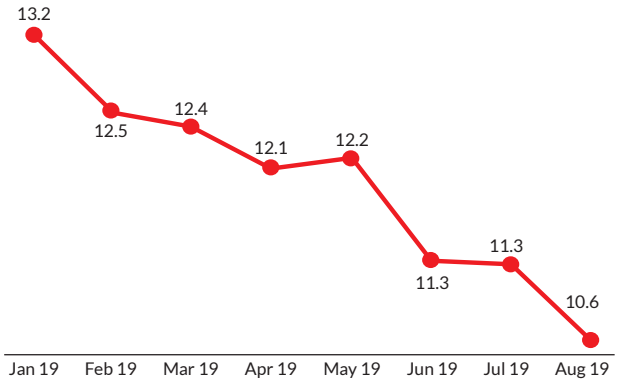
● bKash partners with Visa to to enable the loading of bKash wallets through Visa cards by 'Add Money' service

● **Bangladesh: home to highest number of platinum rated garments factories in the world:** 25 Bangladeshi factories achieved the highest certificate provided by the USGBC

● Bangladesh Foreign Investment **surges 37% to BDT 4.5 billion** in fiscal 2018-19

● Sanofi Aventis, the French Pharmaceutical giant decided to wind up their 59 years of operation in Bangladesh, despite its consistent profitability

● Private sector credit growth **fell to 10.69% in August'19**



Source: Bangladesh Bank

● **Merger between Bangladesh Steel Re-Rolling Mills Ltd (BSRML)** and BSRM Steel Mills Ltd in the offing

● **Made in Bangladesh refrigerators by Walton dominate market:** 22 lakh units sold in 2018, up 10% y-o-y

"THE GDP GROWTH OF ALMOST ALL COUNTRIES IS ON A DECLINING TREND, BUT IT IS ON A RISING TREND IN BANGLADESH."

Manmohan Parkash, Country Director, Asian Development Bank (ADB) on Bangladesh having the highest growth prospect during the 2020 fiscal year.

"We don't want that."

AHM Mustafa Kamal, Finance Minister, on the government restricting telecommunications business over unpaid dues.

"Day by day, number of international competitors is increasing, while the cost of production is soaring."

Faisal Samad, Senior Vice President, Bangladesh Garment Manufacturers and Exports Association (BGMEA), on urging the government to implement more green RMG factories.

"Number-wise that is very lucrative but the service is not much attractive,"

Md Jahurul Haque, Chairman of BTRC, on the number of 4G users reaching 21.5 million.

"THIS IS A VERY TIME-BEFITTING DECISION AS THE PRIVATE SECTOR CREDIT GROWTH HAS BEEN MAINTAINING A DECLINING TREND FOR MONTHS,"

Syed Mahbubur Rahman, Chairman of the Association of Bankers, Bangladesh (ABB) on the Central Bank's decision to keep the loan-deposit ratio unchanged

"IF THEY FACE ANY REGULATORY HURDLE OR LACK LEVEL-PLAYING FIELD IN THE MARKET, THESE SHOULD BE ADDRESSED BY THE GOVERNMENT,"

DR. KHANDKER GOLAM MOAZZEM, Research Director of think-tank Centre for Policy Dialogue, on Sanofi leaving Bangladesh.

WORLD ECONOMIC INDICATOR-AUGUST 2019

Country	Inflation (%)	Current Account Balance (% of GDP 2019)	Gross Domestic Product (yearly % Change)	Interest Rates (%), Ten years treasury bond	Currency Units (per USD)
Frontier Market					
Sri Lanka	5.0	-2.7	3.7	10.8	181.53
Vietnam	1.98	2.5	6.60	3.998	23,212.9
Kenya	3.83	-5.1	5.6	11.65	103.85
Bangladesh	**5.62**	**-2.3**	**7.40**	**9.26**	**84.57**
Emerging Markets					
Brazil	3.2	-1.7	1.0	5.0	4.16
Egypt	7.5	-0.4	5.7	N/A	16.3
Saudi Arabia	-1.1	-4.1	2.4	N/A	3.75
India	3.2	-1.5	5.0	6.7	71.1
Indonesia	3.4	-2.8	5.0	7.3	14,195
Malaysia	1.5	4.5	4.9	3.3	4.19
Phillipines	1.7	-1.3	5.5	4.7	52
South Africa	4.3	-4.1	0.9	8.3	15.3
Turkey	15	-0.1	-1.5	13.3	5.7
Thailand	0.3	7.2	2.3	1.4	30.7
China	2.8	0.7	6.2	3.0	7.14
Russia	4.3	7.2	0.9	7.2	65.2
Developed Markets					
France	0.9	-0.9	1.4	-0.3	0.91
Germany	1.2	6.5	0.4	-0.5	0.91
Italy	0.4	1.9	-0.1	0.9	0.91
Spain	0.1	0.7	2.3	0.2	0.91
Hong Kong	3.5	4.2	0.5	1.3	7.84
Singapore	0.5	15.6	0.1	1.7	1.38
United States	1.7	-2.2	2.3	1.7	1.00
Denmark	0.4	6.8	1.9	-0.5	6.82
Netherlands	2.8	9.7	2.0	-0.4	0.91
Australia	1.6	-0.1	1.4	1	1.49
Switzerland	0.1	9.3	1.7	-0.7	1.00
Britain	0.2	-4	1.2	0.5	0.81

THE REASON MOST DIGITAL TRANSFORMATIONS FAIL

THE PROBLEM

The term 'paper-less organization' is in vogue. But it is more than a movement helmed by conservationists who wish to save the planet from certain environmental doom. It entails the rise and fast spread of digitization of documents in the workspace. Paper isn't being preserved, it is merely becoming increasingly redundant.

Digitization is a process that many companies have undertaken in a bid to reduce cost and increase efficiency. McKinsey & Company's global survey of nearly 1,800 executives, working in organizations of all sizes, types and regions, shows that nearly 80% of the companies surveyed had attempted a digitization effort in the last 5 years. However, despite the effort, most companies are failing at the endeavor. The same survey states that less than 33% of the respondents said digitization actually improved company performance. Despite hundreds of organizations undertaking digital transformation efforts, the success rates sit between 20% and 30%.

The fact that most companies are undertaking some form of digital transformation efforts is a good thing, it increases efficiency, reduces costs and ensures accountability. But all that happens only when it is done right. When done wrong, it is an expensive endeavor that doesn't improve performance, and therefore a time consuming, exorbitant effort in futility.

THE CAUSE

Most companies think that simply installing the hardware and setting up an internal network will get most employees on board. Obviously everyone is aware of the many-sided benefits of technology, so everyone working will co-operate and the organization will make a dramatic shift in how it operates. The employees will receive some basic training in watch-me-do-it fashion and learn how to operate these new tools of trade. Easy. Simple. No problems along the way.

However this very perception of simplicity is what causes most companies to fail. The transformation process doesn't simply involve introducing computing hardware in the office space and expecting everyone to fall in line, even if there is training. Employees usually cannot retain what they learn from short term training, especially if it pertains to regular functionality.

This narrow minded approach to the process is what lies at the root of the problem. The real work needs to be done on the human capital.

THE SOLUTION

Digitization isn't short term. It is not a project that has a fixed beginning and ending date. It is long term. There cannot be a fixed period of training that prepares employees for the shift in culture. A continuous learning culture needs to be introduced that allows employees to retain what they have learned.

The process of learning also needs to come with a system of evaluation which ensures the organization that the employees effectively understand how to operate the system they have installed. A reward/recognition system or rather feedback mechanism needs to be in place that will allow employers to gauge employee performance and identify any areas that need improvement.

Microsoft incorporated a real-time continuous feedback loop into their training process for customer support services. Before its incorporation, 23% of the agents said they were aware of what they needed to know to best help customers. After the feedback loop was implemented, that number rose to 89%. The feedback loop allows the organization to communicate with, explain to and train the employees in any areas of lacking. This, in turn, allows for the digitization process to be continuous and self-correcting.

ABOUT THE RESEARCH

'The Reason Most Digital Transformations Fail'– is an article by Gal Rimon, CEO and founder of GamEffective, published on the Forbes website. The article discusses the reasons why despite taking digitization initiatives, most companies tend to fail.

RESEARCH IN FOCUS

In the current day and age, banks do not merely take deposits and hand out loans as their key business activities. They have expanded into newer ventures such as facilitating imports and exports using letters of credit and handing out long term loans, such as mortgages, that may extend over decades instead of a few years. These new ventures are also far riskier than previous practices and banks constantly run the risk of insufficient liquidity and credit defaults. Thus, some methodology for identifying, measuring and minimizing the risks associated with such activities needs to be in place. The banking industry isn't merely in a state of competition, in the last few years, especially in Bangladesh, it has become a contest for survival. With over 60 banks operating nationwide, the competition is pushing banks into riskier ventures that now, more than ever before, need a measuring tool and mitigating mechanism.

The banking industry doesn't seem to excel in terms of risk management and mitigation without any control mechanisms in place, and to understand this, one doesn't need to look too far. A simple review of the non-performing loans in the country gives us a solid view of the risky ventures the industry has been practicing and how it has been affecting their business. According to a recent report by the IMF, the Bangladesh banking industry has a total of BDT 2.401 trillion in 'bad' loans which include BDT 1.124 trillion in default loans alone. This does not paint a very competent picture of the banking industry as a whole. This scenario demonstrates that a risk management division is a dire necessity.

With regards to the effectiveness of the Risk Management Divisions of banks, the situation seems to be bleak. As non-performing loans have increased, so have written off loans and the recovery rate of written off loans is not encouraging. Profitability of the banking sector overall has declined. Bank credit is concentrated towards large industries and trading sectors, and these sectors have a very high share of non-performing loans. This outcome clearly demonstrates that the role of the Risk Management Division in the credit making process is shallow. The active presence of the Risk Management Division is crucial in the decision making process to ensure greater sustainability of the banks.

Banks in Bangladesh are relatively less exposed in absence of market related instruments which are subject to risk. Banks are required to take judicious decisions when dealing with these risks. Changes in the market related risks are the outcome of regulator/market driven factors. The Risk Management Division should provide necessary analysis to mitigate these risks and save the bank

ABOUT THE RESEARCH

'Effectiveness of Risk Management Division of Banks – An Assessment' - is a research workshop conducted and published by the Bangladesh Institute of Bank Management. The report assess the effectiveness of risk management, what its role should be and what it actually is in practice.

from any adverse future outcomes. Operational risk also has significant contribution in the total risk structure of a bank. A concerning issue in this area is the conceptual misunderstanding between the roles of the International Chamber of Commerce and the Risk Management Division. The International Chamber of Commerce regulates these risks on a policy level, the Risk Management Division has significant roles to play much closer to home.

Any adverse outcomes of banking activities ultimately affect the financial health of the bank through erosion of the capital. The lack of resilience of the banking sector in stressful scenarios is clear from the discussion so far. Risk Management is supposed to mitigate risk, assess capital requirements, provide capital planning to senior management and hence ensure the overall sustainability of the banking system. Even though Risk Management Divisions exist in most banks throughout the country, their industriousness can be and should be brought into question. Thought the Risk Management Divisions play their role in risk related to capital management in some cases, they have yet to attain full involvement in many areas of dire need.

Following are some use cases from global and local banks, which illustrate the outcome of decisions based on suggestion of the Risk Management Division:

Case: Careful observation of RMD facilitated the bank in loss reduction

A composite woven garments manufacturing project with sewing, washing and printing facilities stated that in 2016, their annual turnover would be BDT 600 crore. In 2014, their annual turnover had been BDT 400 crore against a credit outstanding of BDT 5 crore. Bank XYZ was the lucky one amongst many eager institutions to get the opportunity to finance them long term, against a collateral of project land and building. The client purchased machinery capable of generating 6 times the output of conventional machinery. The first hiccup occurred in 2017, when the project failed to start operations on time. The second hiccup came when the company decided to pause the washing unit at the initial stage. This discouraged buyers to place direct orders. The client then started working on a subcontract basis, which was insufficient to run such a huge garment. Risk officials at the bank realized that the client may not be capable of implementing the project in due time and may not be financially viable in the future. The bank decided to curtail their credit in early 2018 as a warning signal.

Case: Active operational risk procedure helped to detect embezzlement

An officer (and maker) of XYZ bank fraudulently cashed a term deposit amounting BDT 8 crore and made an unauthorized transfer amounting BDT 50 lac. This was clearly case of fund embezzlement. Risk management practice was present and complied with. Because cross-checking and preservation of daily transactional vouchers were practices this bank maintained, they found the irregularity immediately, which led to the recovery of the entire embezzled amount and punishment of the accused maker.

Case: Non-compliance of operational guidelines caused big loss

A customer of bank Z, received an LC advised by different local banks. The customer submitted exports documents and request letters for the purchase/negotiation of the bills. The bank manager has a delegation of BDT 20 million for foreign documentary bill purchase. The bills were worth USD 3.2 million, or BDT 25.5 million, which was beyond the manager's delegation. Z bank received payments totaling USD 0.6 million against 3 export bills out of 26. The bills were not repatriated despite expiration of maturity date. As of now, 23 unrealized export bills stand at USD 5.1 million. Although relevant risk management process and guidelines were present in this case, because the bank chose not to comply, the 23 export bills remained a loss for the bank.

Case: Loan sanctioned ignoring the report about abused clients

During a review, it was revealed that despite having negative comments about the clients, the board had sanctioned a loan as working capital in favor of the company. While going through the detailed memo of the proposed loan, it was found that the borrower had large amounts of loans outstanding to other banks, business wasn't going well and that the borrower had no capacity to repay the existing loan. The loan was still sanctioned.

Table: Availability of Systems, Structure, Controls and Process

Sl. No.	Category	Response (%)	
		Yes	No
1.	Availability of Separate Risk Management Division (RMD)	100	-
2.	Separate board approved organogram for RMD	100	-
3.	Is the same person working as Head of RMD and CRO?	53	47
4.	Availability of Risk Register	56	44
5.	Does your board and management practice risk culture?	97	3
6.	Does Internal Audit inspect the various activities of the RMD?	75	25
7.	Did you experience any gap between ICC report and RMD report?	31	69
8.	Is there any conflict among the departments dealing with the risk?	22	78
9.	Do you distinguish between risk management and risk compliance?	75	25
10.	Does your bank assess the impact of risk management activities on the profitability and capital adequacy on the bank on yearly basis?	70	30
11.	Is there any role of RMD in preparing yearly budget of the bank?	59	41
12.	Is the CRO involved in decision making process of loan sanctioning?	70	30
13.	In case of negative comment of CRO, is the loan proposal cancelled?	74	26
14.	Do you have Risk Appetite Statement in your bank?	91	9
15.	Does the bank have separate MIS/database for preparing RMD reports?	42	58
16.	Do you validate the information given by the other departments?	94	6
17.	Does your bank take extra time from Bangladesh Bank for submission of the required statements because of delay in receiving data from other departments?	30	70
18.	Is Whistle Blower concept acceptable by management inn your bank?	75	25
19.	Do you think that any posting of employee to RMD is demotivating?	6	94
20.	Is there any pre-requisite for the employees to be posted in RMD?	70	30

Source: *Survey on 33 banks (3 state-owned commercial banks, 1 specialized bank, 26 private commercial banks and 3 foreign commercial banks) by BIBM.*

Discussion points for better risk management:

- **Absence of risk culture**

  Effective risk management starts from top management. In Bangladesh however, Risk Management is perceived solely as a regulatory mandate, rather than as an important means of enhancing competitiveness and performance. Local banks are not yet habituated to risk-focused culture. This is significant as banks with strong risk management culture are and ethical practices are less likely to experience potentially damaging risk events and also better at effectively dealing with them, should they occur.

- **Policy and Framework**

  Sound risk management in banks calls for well documented policy and framework. Most commercial banks are yet to have an organized framework particularly connecting to operational risk management. This should contain the role of governance, risk appetite, risk policies and procedures, risk identification and assessment techniques, risk modelling, reporting and control and mitigation techniques. A feedback loop should also be put into place.

- **Risk Research and Policy Development Desk**

  As per newly issued Bangladesh Bank risk management guidelines, banks are required to

establish 5 risk related desks. Among these are credit risk, market risk, operational risk, liquidity risk and risk research and policy. Most banks are still struggling with the 5th one – risk research and policy.

- **Assessment of Capital Requirement of Banks by RMD instead of FAD**

  One of the most important tasks of the RMD is to assess the capital requirement and proper capital planning. Banks are still divided in terms of identifying the responsibilities of these tasks. They are still being carried out by FAD.

- **Crucial Role of External Rating Companies**

  Risk based capital management process of banks is largely rating based. Banks are also desperately trying to increase the number of clients rated in their credit portfolio and have reported the increase of rated clients as their measure of success.

- **Effectiveness of the Collateral for Mitigation of Credit Risk**

  Recovery of outstanding loans by selling eligible collateral speaks up about the effectiveness of collateral undertaken against the loan. Now, collaterals are not very effective in most cases though the banks spend most of their time on collateral related formalities at the pre-sanction stage of loans. Only a fraction of the outstanding loans are eventually recovered via sale of collateral.

- **Less Effective Whistle Blower System**

  90% of the respondent banks stated that they have a whistle blower system. However, people do not generally speak up about irregularities and malpractices. Besides, management mostly doesn't welcome whistle blowers.

- **Dysfunctional Business Lines Management**

  Business line managers play a very critical role in managing transaction level risks. It is generally assumed that risk management is half done if the front lines are very effective and vice versa. However, in Bangladesh, front lines are either not allowed to work for management of risk, or incapable, particularly in case of large loans in proposals that come from the top.

- **Effective Risk Monitoring though Automation**

  Monitoring is important for sound risk management of banks. Use of software in improving effectiveness of risk monitoring is commonly found in the industry best practices. Besides, IT based MIS is also important for improvement of decision making which will help the bank minimize risks.

- **Lack of Skilled Management Professionals**

  There is an acute lack of bankers who are well conversant with the techniques of risk management. The commercial banks in Bangladesh are running after few experts who have knowledge about risk management.

- **Key Risk Indicators Development**

  Key Risk Indicators refer to statistical information, which could provide insight into a bank's risk position. These indicators serve as an early warning system for banks to initiate proactive control or preventive measures for risk exposure. In absence of KRI, appropriate monitoring of loss events cannot be ensured, which eventually affects bank performance.

- **Risk Management or Compliance**

  Banks are more interested in risk compliance than risk management. Risk compliance is mostly reactive and prescriptive.

- **Establishing Good Corporate Governance**

  Risk management is part of internal governance involving all areas of banks. A strong link exists between good corporate governance and sound risk management. In absence of corporate culture, management failed to apply their professional judgement in various decision making processes. Thus, distorted corporate practices weakened the resilience and stability of banks.

- **Enhancing the Effectiveness of RMD for Sound Risk Management**

  RMD constantly adds value to the risk management efforts of banks since its inception. RMDs of many banks were able to prevent large losses through timely and prudent action. However, rick indicators such as the NPL ratio, CRAR, ADR are still beyond the control of bank RMD. There are thus missing links to bring these indicators under control.

MICRO ENTERPRISE LENDING: AN OVERLOOKED SEGMENT BY BANKS

At current development juncture Bangladesh economy is riding on, micro, small and medium enterprises (MSMEs) are considered to be the cardinal pillar for sustainable growth. It cannot be any more valid with its large population needing products and services for their livelihood. Microfinance with its ability to turn the poor into entrepreneurs has a huge role in strengthening the economy. Rather than providing cheap labour to cities the rural poor can begin selling goods to urban areas with the help of microcredit.

South Asia continues to lead global microcredit outreach, accounting for nearly two-thirds of global borrowers (60%). According to the Bharat Microfinance Report, India's microfinance sector grew by 40% and could cross Rs 250,000 crore in GLP (Gross Loan Portfolio) by March 31, 2020. Having discerned no impact on the microfinance sector by the recent economic slowdown, The Reserve Bank of India (RBI) has liberalized the eligibility rules for microfinance beneficiaries to allow a wider range of recipients to be covered by this mode of financial inclusion, by increasing the lending limit and income threshold.

Top 10 countries by numbers of borrowers

Rank	Country	Number of Borrower FY 2017	Loan Portfolio FY 2017
1	India	50.9 Million	USD 17.1 Billion
2	Bangladesh	25.6 Million	USD 7.8 Billion
3	Vietnam	7.4 Million	USD 7.9 Billion
4	Mexico	6.8 Million	USD 4.4 Billion
5	Philippines	5.8 Million	USD 1.3 Billion
6	Pakistan	5.7 Million	USD 1.8 Billion
7	Peru	5.1 Million	USD 12.6 Billion
8	Brazil	3.5 Million	USD 2.6 Billion
9	Colombia	2.8 Million	USD 6.3 Billion
10	Cambodia	2.4 Million	USD 8.1 Billion

Micro Enterprises: The "Silent Transformer" of Bangladesh economy

In Bangladesh, 7.82 million economic establishments generating 24.5 million employments (BBS 2013). Of these establishments, roughly 89% are Cottage and Micro (CME) in nature. These enterprises generate 56% of total employment. The average employment per CME is 1.98 persons. Usually, the models adopted by the micro enterprises are market-responsive, require minimum capital, and usually are profitable which have the capacity to emerge as 'silent transformers' of the Bangladesh economy mainly due to their large numbers and relatively simple forms of operation consistent with the country's labour force characteristics and resource endowments.

According to the survey by The InM Micro-enterprise (ME) in 2016, the unmet demand for Bangladesh microcredit amounts to BDT 438 billion. Demand for microenterprise credit is basically interest-elastic, the analysis shows, 1% decrease in interest rate will increase demand for micro enterprise credit by 5.6%.

A survey by The InM Micro-enterprise (ME) in 2016 reflects on the major constraints faced by the micro

enterprises, where access to finance topped the list. Other major constraints came out to be product marketing, scarcity/high price of raw materials, competition with others, low demand for the product in the market. Since micro enterprises mostly operate in the local economy, product marketing or low demand for outputs is a lesser constraint.

MFI LANDSCAPE OF BANGLADESH

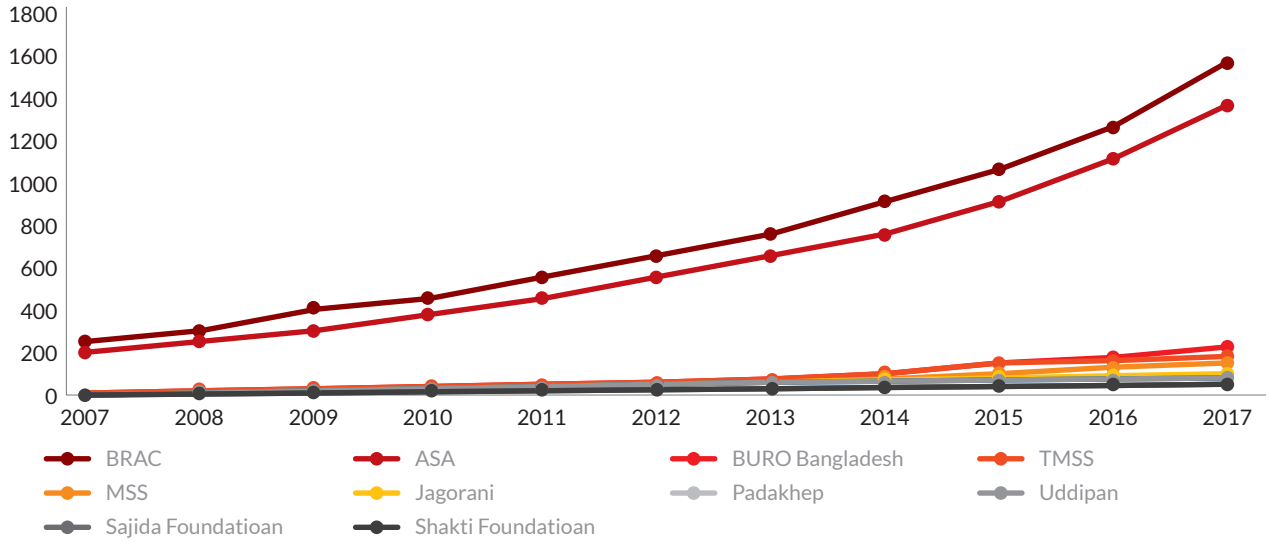
699 Licensed MFIs		30 Million Total Clients		BDT 1,046 Billion Total Loan Disbursement		BDT 217 Billion Total Savings	
	17,120 Microfinance Branches		25 Million Total Borrowers		BDT 409 Billion Total Agricultural Loan Disbursement		BDT 584 Billion Loan Outstanding

Microfinance started in Bangladesh in 1970s with the emergence of Grameen Bank. As of June 2017, a total of BDT 104,578 crore amount of loan disbursed in micro finance sector. Although, microfinance is a an old area of financing in Bangladesh, still there are some challenges from borrower and lender end.

Lender side of microcredit landscape generally consists of Banks/NBFIs, Microfinance Institutions (MFIs), Co-operative society (Shomobay shomoti), out of which MFIs are the prime lender. A total of 699 licensed MFIs are in operation at present.

Having said that, only 2 MFIs control the lion's share of the market: BRAC and ASA. These two MFIs comprise of 51% of total disbursed credit and 53% of total loan outstanding.

Credit Disbursement of Top 10 MFIs as of June 2017



Banks are shying away from Micro enterprise lending

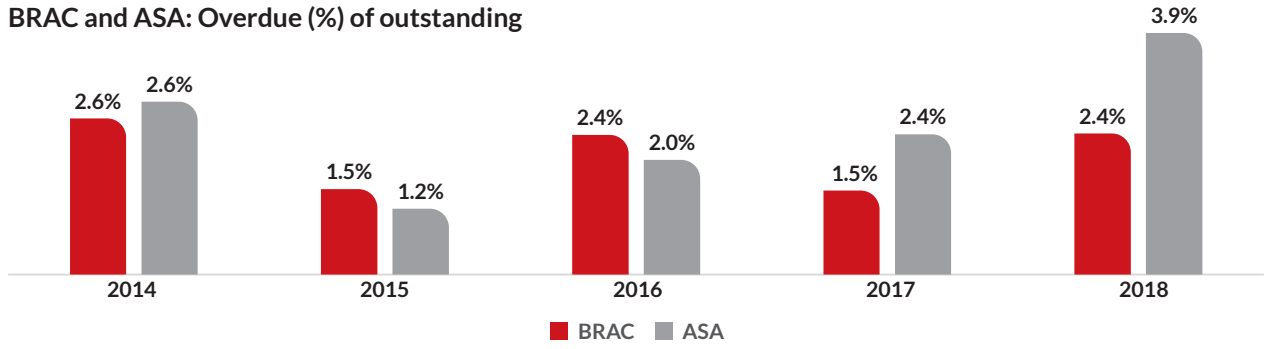
Banks have limited scope for financing micro enterprises mainly because of their loan product approach and operational framework. They are more inclined towards financing large and medium enterprises and, when they do, it is largely for working capital financing. Even when banks are financing micro enterprises, they are basically serving the upper strata of micro enterprises that are more close to graduation to small enterprises. Moreover, their operations are limited mostly to urban areas. In such a situation, it becomes quite difficult for the banks to finance rural micro enterprises.

In 2017, banks contribute only 17% in total micro enterprise lending, with a maximum threshold of 14% since 2009. Also, most micro enterprise owners most MSE owners prefer availing loans from MFIs as compared to banks. This is due to the stringent documentation and verification procedures required by banks.

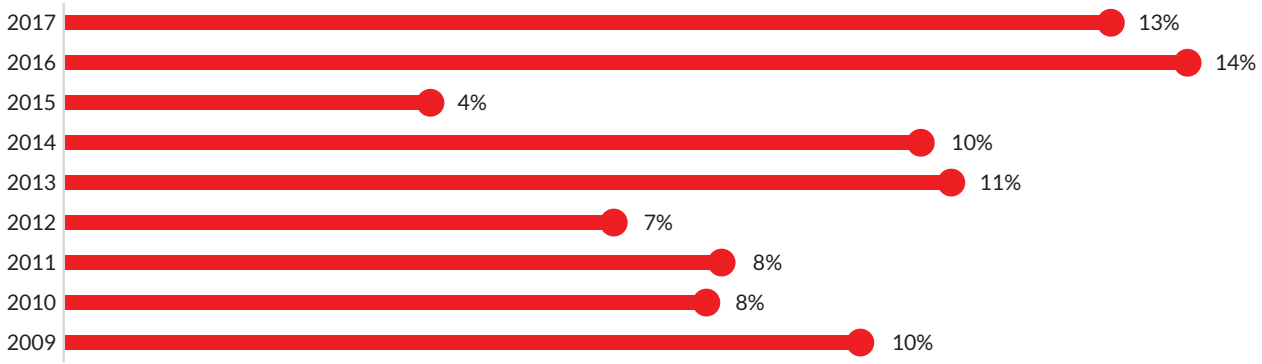
The key reasons holding banks to penetrate into the realm of microcredit are:

- Branch network is limited
- Extensive documentation is needed to abide by regulatory requirement
- Existing collateral-based lending practice is not suitable
- Lending to micro enterprise is costly and risky
- Large and medium-sized loans are more profitable against the human resource deployed

BRAC and ASA: Overdue (%) of outstanding



Microcredit disbursement by banks: Never crossing 15% threshold



Digital initiatives of MFIs to scale up business

The client acquisition process for microcredit sector is extremely manual and laborious. In common practice, field officers go to the market to find prospective client, manually take up all their data in a large sheet, come back to office and hands over the sheet for another officer to digitally capture these data. The process is time-consuming and costly. Of late, BRAC, ASA, Sajida Foundation and some other notable MFIs introduced some digital initiatives as a means of scaling up their business volume.

The study by Bill & Melinda Gates Foundation and by the European Union under the Poverty Reduction through Inclusive and Sustainable Markets (PRISM) in Bangladesh programme, Microsave Consulting (MSC) and UNCDF reveals the following digital initiatives by MFIs of Bangladesh:

- **Majority of MFIs in Bangladesh have migrated to a web-based, real-time loan management system and centralized database**

  Almost all of the surveyed MFI, except the big ones (BRAC, ASA, Sajida Foundation), are using web-based, real-time loan management systems with a centralized database. BRAC and ASA are aiming to migrate 100% of their branches to the centralized database by June 2019. Loan Management Systems (LMS) solutions used by most MFI have MIS dashboard. MIS is able to automatically pull data from the financial information system and the human resource information system. Some of the larger MFIs, such as ASA and Shakti Foundation have developed in-house LMS, because it is cost effective.

- **Only a few MFIs have started implementing digital field application (DFA) for loan origination and collection**

  At present, most MFI have not developed a DFA solution. Only three notable MFI, namely BRAC, Rural Reconstruction Foundation and Sajida Foundation have rolled out pilots to use DFA for loan origination in some of their branches.

  - **BRAC** has implemented DFA module for loan repayment across most of its branches.
  - **Sajida Foundation** plans to merge its financial advisory app with the loan origination app to provide their field officers with a single tool to manage both credit and savings products.

  Most MFIs, except smaller ones, showed a willingness to implement DFA for client registration, loan application processing and collections. They have already initiated discussions with technology service providers for DFA solutions.

- **A few MFIs have rolled out pilots for cashless loan disbursements and repayments, and savings collection**

  Sajida Foundation and **Shakti Foundation** have rolled out pilot tests for cashless loan disbursements in two ways:

  - **Mobile Wallet:** Disbursement of the loan amount in mobile wallets of customers such as bKash or Rocket
  - **Bank Account:** Partnership with a commercial bank, such as Bank Asia to register MFI branches as banking agent outlets. Loans are disbursed directly in the bank account of clients

However, Cashless disbursement in mobile wallets received a setback after Bangladesh Bank guidelines on daily and monthly transaction limits. For a customer making several visits to agent point or ATM to cash-out her loan from mobile wallet led to a poor customer experience.

Cashless loan repayment: Only a few surveyed MFIs such as BURO, BRAC, and Sajida Foundation have rolled out pilot tests for cashless loan repayments through mobile wallets in some of their branches

Savings: BRAC and Sajida Foundation have also rolled out pilot tests for savings collection through mobile wallets in some of their branches

- **Other technology initiatives undertaken By MFIs**

All the surveyed MFIs have financial accounting software and it is integrated with the loan management system. Most of the large and mid-sized MFIs have HRIS software that contains payroll, leave management, recruitment and performance management. Mostly, small sized MFIs have not automated their HR system and do not have HRIS. Some of the large and mid-sized MFIs use asset management and/or inventory management to manage their vast operations. Small MFIs do not have such applications. MFIs such as Bangladesh Extension Education Services (BEES), Rural Reconstruction Foundation, Sajida Foundation, and Shakti Foundation send transaction-related SMS to clients (pilot stage).

Areas to explore in digital journey

- **MFIs are on a digital journey, and are yet to explore emerging financial technologies, such as digital credit, artificial intelligence-enabled tools and blockchain**

Most MFIs are unaware of digital credit. They doubt its relevance due to the low literacy rate of their clients. However, some MFIs understand the potential of digital credit as a unique loan product to target unreached customers for micro-credit and micro-enterprises. MFIs such as BRAC have explored alternate lending to target new customer segments. These models are currently being piloted in collaboration with Fintech or Mobile Financial Service providers.

BRAC is conducting a pilot on an alternate lending model, however it is in its nascent stage. The target customers are those who have micro credit requirements. They partnered with startups that provide business development support to entrepreneurs to sell their products online. BRAC's management feels that digital credit is a powerful tool to come up with new product lines to serve those customer segments which are excluded from the traditional microfinance model.

A few of the larger MFI, such as BRAC and Sajida Foundation have been exploring the use of data analytics to develop credit scoring and financial advisory models. Most MFI don't consider blockchain to be relevant or too early to explore in Bangladesh. Most MFI aren't even aware of the concept, functionality and use of blockchain.

Current challenges faced by MFIs

- **Operational Challenges**
  - **Cash management poses a challenge:**

    This is a human intensive activity in microfinance programs as operations ranging from disbursements to repayment collections are done in physical cash, resulting in low productivity, leakages, fraud and other operational risks.
  - **Documentation level is high:**

    Clients have to submit a number of documents to apply for loans, these include proof of identity, address, photographs of self, spouses and guarantors. This high documentation level leads to high turn-around time for loan disbursement and also leads to high cost of stationery.
- **Technological Challenges:**
  - **Cybersecurity is low:**

    Most MFI with their own data centers do not have their own disaster recovery center. They usually maintain a backup on the same premises. They risk losing their entire database in case of unforeseen circumstances.
  - **High Operational Cost for MFI:**

    Microfinance operations have historically been human intensive, making it inefficient and prone to redundancies. This limits their

scalability as it makes them vulnerable to sub-optimal service, risks and fraud. Technology constraints further limit their potential to scale.

- **Regulatory Challenges:**
  - **Multiple borrowing and over-indebtedness:**

    Bangladesh does not have a credit bureau for MFIs which has also aggravated risks of over-indebtedness.
  - **Lack of access to national identity database:**

    MFI do not have access to the NID database to help them verify information and reduce fraud.
  - **Low cash withdrawal limit at agent points:**

    According to MFS regulation 2018, only BDT 5,000 can be withdrawn every 24 hours. This makes it difficult for channels to disburse loans.
  - **MFIs are not part of the payment system:**

    MFI clients cannot get full benefits of the products offered by them and Fintech will become a potential threat in the future.

Way forward

- Microcredit Regulatory Authority (MRA) is planning to create a credit bureau for the micro enterprise borrowers, which is in the offing. It will help mitigate the primary challenge to finance micro enterprises, i.e. access to credit information
- Ecosystem players need to improve coordination, invest in capacity- building at multiple levels and various thematic areas, and foster cohesive partnership to develop a digital ecosystem for promoting Mobile Financial Services (MFS) among micro enterprises as a potential payment method
- Regulators may relax extensive documentation in case of lending to micro enterprises, so that banks/ FIs can penetrate into the sector

Shams Azad

Chief Operating Officer, BRAC Microfinance Programme

MBR: As the leader of microenterprise lending, what is your opinion regarding the demand side potential of this market?

Shams Azad: Microenterprises are an integral part of our country's economic growth. They have immense contribution for the rapid transition of Bangladesh to achieve middle income country status. Microenterprises contributes approximately 25% to the country's GDP (from a study by Business Finance for Poor in Bangladesh). BBS Economic Census 2013 says, out of 7.8 million enterprises, 89% are microenterprises. They are spread out into different industries and different businesses. There is an estimated BDT 300 billion annual turnover from these enterprises and a prospective market size for working capital financing of more than BDT 8,000 crore (from a study by Business Finance for Poor in Bangladesh). So the demand side of microenterprise lending is massive and at the same time, access to finance is also a big challenge for them. Approximately one third of them access finance from mainstream banks. Another group access finance from NBFIs like microfinance institutions or rely on different sources of informal borrowing.

There are around 700 microfinance institutions in Bangladesh (as per registered MFI list of Microfinance Regulatory Authority, 30th June, 2019), trying to serve the financial needs of these microenterprises. Still a large portion of these businesses are either unserved or underserved and we all should work together to build up an effective ecosystem to cater to their demand.

MBR: What challenges/limitations lenders face while financing the micro-enterprises?

Shams Azad: The first thing for any financial institution is of course the assessment of the client's credit worthiness. However, for microfinance institutions like us, our assessment mechanism is different than commercial institutions. We do not have CIB report of our clients and our loans are non-collateralized. Hence, we largely depend on the on-site assessment by our credit officers.

Our officers try to gather information from various sources from that community in order to take a decision. The intention here is not not to ensure repayments but to have a constructive conversation with the client so that the client does not face adverse situations, such as a situation of over-indebtedness. So the assessment of microenterprise loans are very complex in nature for MFIs. On a positive note, Microfinance Regulatory Authority (MRA) has started developing CIB system for microfinance clients. Once that CIB system is operational, we are hopeful that it will highly benefit all the service providers in the ecosystem to serve these clients better.

Secondly, we do not have a large pool of authentic sources of data about their business transactions. The more data we can gather about a business, would help us better to determine the capacity and financial needs of that enterprise. However, at present, we cannot get authentic data about the business pattern of these microenterprises. In most cases, we try to collect information from their

register (haal khata) or from their recent business transactions. Sometimes we try to get an idea of the value of on-hand stocks during on-site visits. We also try to understand the seasonal impact of their business. But the entire information set is collected from informal data sources instead of proper monthly financial statements. Probably, at some point, we may consider supporting them with financial data management, which will definitely help them take better decisions about their business.

MBR: BRAC took some commendable initiatives in case of digitalising the operational process in microlending. How, do you think, digitalisation helps in reaching scalability in micro business?

Shams Azad: Going digital will surely have a multifold impact on the way we perform our operations every day and serve millions of our clients. We considered embracing the digital revolution in three ways. Number one is predominantly digitizing our own systems and processes which will definitely improve our cost and time efficiency. Secondly, we are working on taking the benefit of digital financial services to our clients so that it helps them to adapt into more efficient ways of transaction. And lastly we are exploring data driven decision making about our clients.

For example, previously our loan officers used to go to the doorsteps of the clients to collect loan installments with a large piece of collection sheet, printed from a dot matrix printer. Loan officers would then get back to the office, and account officers used to manually give input of every transaction in the computer. Now we've completely digitised the process of installment collection by traditional 'passbook' with an application that enables field staff to instantly record client payment information and view transaction histories via handheld Android devices. More than 12,000 loan officers are now going with a smart tab to collect the installments, and when they are getting back to branch office, the transaction data is synced with the office computer. This digitization is saving our printing costs every year and also reducing our carbon footprint.

We are also testing savings collection through digital wallets with our clients. Clients can now send DPS instalments via bKash, a BRAC bank subsidiary, without incurring additional cost of traveling to the branch office. Since inception, we opened more than 900,000 digital wallets with our clients and almost 40% of our DPS collection is being done through DFS.

We are also exploring alternative credit scoring models to test whether algorithm based client assessments can give us right insights about a client's credit worthiness. We are testing this with a start-up organization called Shop-Up, who are providing technical and business support to help small business entrepreneurs build their brands on Facebook, 40% of whom are female. BRAC microfinance is working with them to give access to finance to those young entrepreneurs. Shop-up is building an alternative credit scoring model through which we are trying to understand the client's credit worthiness and our loan limit.

MBR: What regulatory measures are necessary in order to propel micro-lending?

Shams Azad: We need policy level framework from our respected regulatory bodies to better serve these microenterprises. For example, as per MRA's guideline microfinance institutions are capped at a certain percentage of portfolio for lending to this segment. Probably it is a good time to review it again. At the same time, we see that commercial banks are trying to reach this segments through agent banking mechanism. So do they need more flexibility to serve these clients, that can be discussed under the current context.

We also need right client protection policies so that we all work efficiently with these clients as responsible organizations while protecting their rights to access finance. And the discussion of digital policy is already ongoing. Organizations in the digital ecosystem are still working on the costing mechanism. It will take some time to get more clarity on a few things. We need our regulators to help and guide the sector to a point where we can provide greater benefit to microenterprises and increase their contribution to this country's GDP event higher.

EVALY

Mohammad Rassel

CEO, Evaly

Background of the entrepreneur

Before he became an entrepreneur, Mohammad Rassel, CEO of Evaly, was working at Dhaka Bank. He was working in the credit section, evaluating people's worthiness and willingness to pay back loans. So, he was already interacting with business people on a day-to-day basis. Eventually, he grew fascinated with the idea of starting his own venture. He started thinking about different products and services, and started observing consumer behavior. Then with all the knowledge and experience about corporate culture and the corporate world that he had accumulated over his career, he decided to venture out on his own. Augmented by his banking specific knowledge about financial management and managing human resources, he started on a path that would lead down to Evaly and where it is today.

About the business and business model

At first, Mr. Rassel thought about what his available options were. He could have gone into the importing business, buying goods from abroad and then selling them on local soil. He could have gone into manufacturing and made products for the very same consumers that he had spent his entire career already dealing with. He could go into trading, becoming a middleman of sorts, allowing for easy access of goods to others around him. Then he saw that, similar to the rest of the world, Bangladesh was headed for an e-commerce boom. He saw potential, better yet, he saw untapped potential for the industry in the days coming ahead. He further observed that the market lacked any serious players, and thus Evaly was born.

Evaly is an aggregator platform that bridges the communication gap between the buying party and the selling party. There are sellers of both goods and services on the platform now and this includes both brands and merchants. Currently, there are close to 100 brands on the platform and nearly 14,000 merchant sellers.

For logistics, Evaly uses 3rd party solutions, like Sundarban, PaperFly and Pathao. They plan on continuing this third party trend in the future as well. Evaly also does not want to do any warehousing now or anytime in the near future. Currently, only a very small number of very specific products of the brands are getting any warehousing services from them, and these are only the small sized products like smart phones. Larger brand items like ACs, TVs and refrigerators are being directly delivered to the customers from the showrooms of those particular brands.

Key Info

- **4,000** Number of Categories of Products
- **14,000** Number of Merchants
- BDT **30,000-35,000** Average Basket Size
- USD **4-5** million(during campaigns) sales [10x regular]
- **100** brand-sellers
- Revenue sources: **30%** from Motorcycles, **30%** from Smartphones, **40%** from remaining products

Evaly only facilitates the delivery process. And for the merchants, there are no warehousing facilities for them at all, and all deliveries are picked up from the merchant's own warehouses and then delivered to the customer's specified locations. In the future, Evaly plans to have a zero-inventory model and absolutely no warehousing.

Current State of the business and Challenges

Evaly is still very much an offer-based e-commerce brand. They get five to ten times more orders during their offer campaigns compared to regular orders. So, although they can do 4-5 million dollars (US) worth of business during campaigns, these are also their only notable sales at present.

As for their revenue sources, 30% of it comes from motorcycle sales, another 30% from smart phones sales and the rest of the 40% comes from their other 4,000 product categories. These categories contain a vast variety of products from everyday non-perishable consumer goods to various electronics from various brands. But since a majority of their sales come from expensive motorcycles and smart phones, they boast a higher than average basket size of BDT 30,000 - 35,000.

A major point of pain for Evaly would be their customer service. They lack both the manpower and the infrastructure to cope up with all the customer service requirements and demands that come to their platform. And any improvement would require more investment into the company, which has so far not formally raised any major funds and operates mostly on personal investments.

They also struggle with delivery lead times. While they promise delivery within 3 days, which they can indeed provide for their regular orders, the mass inflow of orders during campaigns can seriously hamper them, as they don't have the logistics to deal with those large number of orders. Often, customers have to wait up to 15 days for their products. This can strain customer relationships with the company. Improving this situation would require them to move away from the offer-based model to a more regular sales model, and of course bring in larger amounts of investment.

Future Plans

Despite the challenges, Evaly does have many plans for the future. They are working on an Express service, which is still in development, but eventually they plan to use commuters for moving their products from point A to point B. This could drastically improve their logistical capabilities, allowing them to process a larger number of orders in much less time, especially during their aforementioned campaigns. They have opted to not disclose any further details on the matter.

They also have plans for working more closely with their merchants to help them acquire easier financing. Currently, a major challenge facing micro, small and medium financing is borrower selection. This is due to a lack of information, which makes credit evaluation difficult. Evaly plans to solve this by gathering the sales information of their merchants from their respective platforms and then tagging along with financial institutions. Providing these financial institutions with this information will allow them to provide loans to the small merchants.

IDLC Finance Limited partnered with Chaldal to finance Kitchen Market Vegetable Retailers

IDLC Finance has decided to create access to finance for about 450 Kitchen Market Vegetable Retailers as part of its vision of financial inclusion.

Traditionally, these Kitchen Market Vegetable Retailers did not have access to formal credit mainly due to lack of proper documents and financial records. As a result, they are denied of financing facilities from the Banks and Financial Institutions. To fulfil their financing needs, they avail loans from local lenders at a very high interest rate, which is deterrent to their business growth. IDLC Finance wants to contribute in their growth by meeting their financing needs.

To provide financing facilities for the vegetable retailers, IDLC has recently signed an agreement with Chaldal on September 8, 2019 at IDLC Head Office. Arif Khan, MD & CEO of IDLC Finance Limited and Waseem Alim, MD & CEO of Chaldal were present at the event along with the other senior officials of both the organizations. "As a responsible financial institution, IDLC is always eager to work on financial inclusion and serve the untapped market", told Arif Khan, MD & CEO, IDLC Finance Limited. The goal of this partnership is to create access to finance for Chaldal's customers who are vegetable retailers.

As a responsible financial institution, IDLC is always eager to work on financial inclusion and serve the untapped market.

- Arif Khan
CEO & Managing Director
IDLC Finance Limited

IDLC Online Finance Olympiad Season 2 Begins

The 2nd Season of National Finance Olympiad, the biggest online finance competition in the country, titled as "IDLC Finance Olympiad 2.0" went live on 15th September with a lot of enthusiasm and excitement.

A total of 20,800 students from different colleges and universities across the country participated in last year's Finance Olympiad. Among which, top 40 participated in an offline gala event hosted at Krishibid Institute Bangladesh Auditorium. The title winners won laptops, smart phones along with certificates and medals.

The largest multi-product financial institution of the country, IDLC Finance Limited has been organizing the event from last year to make youth more aware about basic financial literacy, so they can make conscious financial decisions.

On 15th September, the online platform idlcfinanceolympiad.com went live. The competition will be online from 15th September 2019 to 6th October 2019, this year's winners of the Olympiad will walk away with a trip for 2 person to Bali, laptops, smartphones and medals. Contestants aged between 14-24 years can participate in contest from any part of the country.

Addressing the youth, IDLC CEO and Managing Director Arif Khan said "as a part of the financial sector for over 34 years, we believe that IDLC has a responsibility to disseminate knowledge, help upgrade aptitudes and enhance the financial literacy skills of young minds across the country."

The online participation has been made easy for all the participants. They can login and answer few basic questions, clues to which will be given to the participants via tutorial videos.

To participate, one just needs to login in the website for the Olympiad: idlc.com/olympiad or download the app available in Google Play store.

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WHY SHOULD GEN Z START SAVING MONEY EARLY?

One of the most important things that students in western countries learn very early on is the value of money. The pocket money they receive from their parents is usually in exchange for helping with house work or chores. During summer vacations, they take part time jobs (usually in high school). So from a very early age, students in western countries understand that there is no such thing as free money. This realization, in turn, allows them to learn the importance of saving money. This isn't a trivial lesson, it can help an individual become better at planning their future financially.

Now, the scenario is obviously very different in our culture. Subjecting children to perform household chores in exchange of money would seem almost barbaric and cruel to most parents in Bangladesh. Most Bangladeshi parents don't even give their children regular access to pocket money, instead opting to buy them anything they desire. Their argument would be that children are too young to handle money on their own and require supervision of adults. This mentality can cause parents to be handle their children's finances well into adulthood, even during their years at university.

Well, here is our argument to allow children to not just work, but teach them to save money. Say you wait until your child is 18 years old, a legal adult, before you allow him/her to work. Students usually earn money by teaching younger students. Now we teach them to save some of the money they earn every month, however small the amount. Let's say that amount is BDT 1,000.

Now this money should be deposited in a bank account. So this means opening a bank account for your children. Most banks offer deposit schemes that allow for an annual interest rate of 10%. Now, if at the age of 18, your child starts saving BDT 1,000 every month, by the time they finish university and go into the 'real' job market, at the age of 23/24, they will have saved continuously every month for at least 5 years. This means they have deposited about BDT 60,000 at the bank and this will compound to approximately BDT 77,000 taka. Your child will now have a BDT 77,000 worth of a head start on his contemporaries and will have learned lessons about sincerity from regular work, finances from regular trips to the bank and most importantly about the importance of saving, and they will carry these lessons with them for the rest of their lives.

- **Gen Z:** People who were born in early 2000s.
- **Gen Y:** People who were born in early 1980s, popularly known as millennials.
- **Baby Boomer:** People who were born in between 1946 and 1964.

Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market closed the month of September in negative territory. During the month, the broad index DSEX declined by 2.9%, losing 148.1 points. The blue chip index DS30 and the Shariah index DSES also slumped by 2.2% and 3.8% respectively.

Among the regional peers, Sri Lanka (-2.6%) also closed the month in red, while Pakistan (+8.1%) and Vietnam (+1.3%) yielded positive returns. MSCI Frontier Markets Index slumped by 1.9%. Vietnam showed the most encouraging longer term track record with a 5 years' return of 66.4%, while Bangladesh yielded -2.5% return during the same period. In the meantime MSCI Frontier Markets Index yielded -8.3% return.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, September, 2019	Return*					
		1M	3M	YTD	12M	3Y	5Y
Bangladesh							
DSEX	4,947.6	-2.9%	-8.0%	-8.1%	-7.8%	5.4%	-2.5%
DS30	1,760.0	-2.2%	-6.2%	-6.4%	-6.9%	-1.1%	-10.2%
DSES	1,138.7	-3.8%	-6.2%	-7.6%	-8.1%	1.1%	N/A
Peer Countries							
Pakistan (KSE 100)	32,078.9	8.1%	-10.8%	-13.5%	-21.8%	-20.9%	7.9%
Sri Lanka (CSE - All Share)	5,738.2	-2.6%	8.0%	-5.2%	-2.1%	-12.2%	-20.9%
Vietnam (VNI)	996.6	1.3%	3.8%	11.7%	-2.0%	45.3%	66.4%
MSCI Frontier Markets Index	**725.6**	**-1.9%**	**0.3%**	**7.6%**	**3.2%**	**14.2%**	**-8.3%**

* All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

Liquidity Condition in Equity Market of Bangladesh

During September, the total market capitalization decreased by 1.8%, while free float market capitalization decreased by 3.3%. Meanwhile, daily average turnover of September 2019 was BDT 4.0 bn (USD 47.9 mn), decreasing by 12.5% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market increased to 27.3% in September compared to 23.3% of last month. In 2018, turnover velocity of Bangladesh equity market was 37.7%, whereas it was 5.4% in India, 6.9% in Sri Lanka, 34.8% in Vietnam and 70.7% in Thailand.

Table 2: Market capitalization and turnover statistics

Particulars	30-Sep-19	31-Aug-19	% Change
Total market capitalization (USD* mn)	44,243	45,070	-1.8%
Total equity market capitalization (USD mn)	37,320	38,148	-2.2%
Total free float market capitalization (USD mn)	14,928	15,442	-3.3%
Daily Avg. Turnover (USD mn)	47.9	54.7	-12.5%
Turnover Velocity~	27.3%	23.3%	N/A

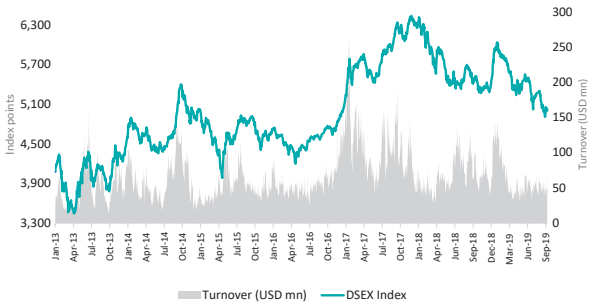
**All USD figures are converted using an exchange rate of 84.5 as of September 30, 2018 as per Bangladesh Bank website.

~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 22.0% till September, 2019. During the same period, daily average turnover of the market amounted to BDT 5.5 bn (USD 64.5 mn) (Figure 1).

Figure 1: DSEX since inception along with market turnover

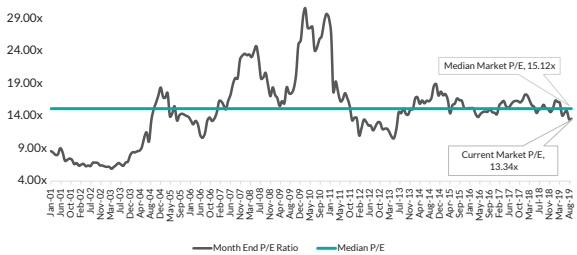


Market Valuation Level - P/E Ratio

The market P/E decreased to 13.34x in September compared to last month's 13.59x. It is lower than 18 years' median market P/E of 15.12x (Figure 2). In terms of trailing 12 month P/E ratio equity market of Bangladesh is cheaper than most of its regional peers. (Figure 3).

Figure 2: Historical market P/E* and it's median

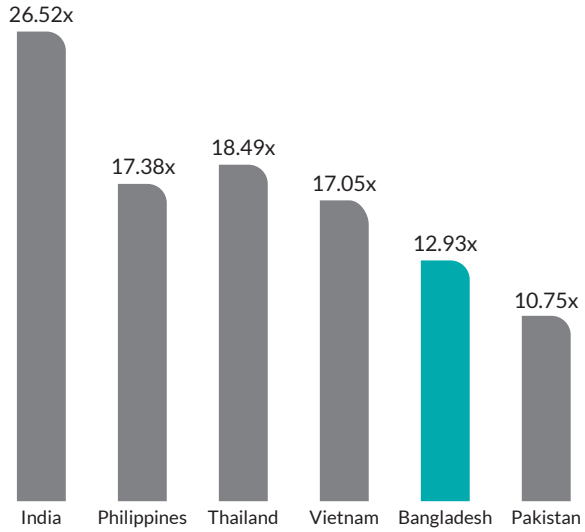
Current Market P/E in Context of History



*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 September 30, 2019. Source: IDLC, Bloomberg

Sector Performance

During September, among the major sectors Telecommunication, Non-Life insurance and Bank advanced by 12.9%, 7.9% and 0.4% respectively, while all other sectors yielded negative returns.

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 7.6% 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	YTD	12M	3Y	5Y			
Bank	6,666	3,737	0.4%	-6.3%	-0.7%	3.7%	36.9%	64.4%	8.2	0.9	2.2%
Pharmaceuticals & Chemicals	6,113	3,294	-4.0%	-1.4%	3.2%	7.3%	22.2%	56.1%	13.5	12.6	1.8%
Telecommunication	5,870	626	12.9%	-0.8%	3.0%	2.5%	49.7%	16.9%	16.7	2.5	7.6%
Fuel & Power	5,197	1,372	-10.6%	-10.1%	-0.9%	-6.7%	23.1%	35.2%	12.0	1.5	4.9%
Food & Allied	3,151	1,135	-4.4%	-15.4%	-2.6%	2.8%	29.2%	35.0%	26.3	7.5	1.5%
Engineering	2,139	1,087	-5.6%	-10.8%	-13.0%	-15.2%	-0.3%	40.4%	13.2	1.5	1.6%
NBFI	1,827	555	-2.5%	-14.8%	-15.8%	-15.3%	9.9%	-1.0%	16.9	1.5	3.6%
Textile	1,267	697	-10.9%	-20.5%	-21.8%	-14.2%	15.3%	27.0%	12.3	0.8	2.5%
Miscellaneous	1,312	339	-4.4%	-0.3%	4.4%	7.0%	19.3%	90.8%	22.9	1.2	1.9%
Cement	931	381	-6.9%	-13.8%	-22.2%	-29.6%	-44.7%	-58.6%	26.3	2.2	2.5%
Life Insurance	709	312	-1.8%	2.5%	-3.4%	1.7%	44.6%	0.7%	13.9	5.8	1.8%
Non-Life Insurance	626	361	7.9%	4.9%	35.6%	33.9%	83.4%	52.0%	13.9	1.2	2.6%
Ceramics	307	131	-2.6%	-2.2%	-6.1%	-11.6%	3.7%	-0.6%	23.2	1.7	1.5%
Tannery	282	134	-6.1%	-9.8%	-13.0%	-11.2%	7.1%	9.3%	22.4	2.2	2.5%
Travel & Leisure	249	134	-5.0%	-11.4%	-13.2%	-10.1%	17.0%	-21.7%	21.5	0.6	3.5%
IT	224	145	-7.5%	-9.8%	-15.4%	-8.7%	57.2%	179.2%	25.9	1.2	1.2%
Services & Real Estate	181	93	-9.8%	-15.0%	-15.0%	-15.9%	-24.0%	-25.5%	15.0	0.9	4.5%
Paper & Printing	133	45	-1.9%	-8.4%	-28.5%	-17.7%	27.7%	12.6%	20.0	2.2	3.1%
Jute	40	29	-13.6%	-14.5%	-27.7%	125.3%	228.5%	440.9%	39.2	12.3	0.1%
Market	**37,026**	**14,467**	**-2.9%**	**-8.0%**	**-8.1%**	**-7.8%**	**5.4%**	**-2.5%**	**13.2**	**1.7**	**3.4%**

*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 September, All Cap Classes yielded negative returns. However, the Large Cap was the highest dividend yielding (3.8%) class.

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	YTD	12M	3Y	5Y			
Large	≥120	82.2%	-0.6%	-7.1%	-0.3%	-0.4%	33.0%	26.1%	13.1	1.9	3.8%
Mid	36-119	11.1%	-2.1%	-3.8%	-2.9%	-0.4%	8.7%	24.5%	11.8	0.9	2.0%
Small	12-35	5.2%	-5.4%	-10.2%	-14.0%	-8.6%	14.6%	32.7%	18.6	0.9	1.8%
Micro	<12	1.5%	-3.9%	-10.9%	-8.8%	-7.5%	18.6%	29.4%	20.8	1.0	1.6%
Market	**-**	**-**	**-2.9%**	**-8.0%**	**-8.1%**	**-7.8%**	**5.4%**	**-2.5%**	**13.2**	**1.7**	**3.4%**

* 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, GP (+12.9%) advanced the most in September, followed by RENATA (+6.2%), BRACBANK (+6.2%) and DUTCHBANGL (+4.7%). On the contrary, UPGDCL (-24.1%) faced the highest selling pressure during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BRACBANK (+271.7%), BERGERPBL (+203.4%), RENATA (+147.3%), EBL (+113.2%), and DUTCHBANGL (111.9%).

Among the scrips GP, SUMITPOWER, TITASGAS, EBL, MJLBD, ISLAMIBANK and MARICO recorded a higher dividend yield compared to that of market.

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	YTD	12M	3Y	5Y			
GP	Telecommunication	5,631	563	0.87	12.9%	-0.7%	2.6%	1.7%	51.4%	17.8%	13.2	14.2	9.0%
BATBC	Food & Allied	2,450	648	0.18	-4.9%	-15.9%	-1.6%	3.4%	44.3%	34.3%	27.2	7.6	1.4%
SQURPHARMA	Pharmaceuticals & Chemicals	2,205	1,446	0.80	-6.3%	-10.7%	-7.1%	-6.2%	15.7%	35.6%	14.8	3.1	1.3%
UPGDCL^	Fuel & Power	1,869	187	0.40	-24.1%	-20.1%	3.1%	-10.9%	191.9%	N/A	19.2	5.8	3.0%
RENATA	Pharmaceuticals & Chemicals	1,203	587	1.41	6.2%	5.3%	10.5%	19.2%	53.9%	147.3%	30.2	6.4	0.7%
BRACBANK	Bank	898	500	0.10	6.2%	-7.0%	-2.7%	-1.5%	79.0%	271.7%	15.0	2.3	0.0%
BERGERPBL	Miscellaneous	840	42	0.02	-2.8%	5.7%	15.8%	24.5%	39.0%	203.4%	34.4	11.4	1.6%
ICB	NBFI	798	25	0.01	-5.4%	-16.7%	-16.9%	-17.5%	9.1%	-14.4%	72.9	1.9	2.8%
MARICO	Pharmaceuticals & Chemicals	642	64	0.12	-6.6%	15.0%	45.9%	51.4%	60.5%	86.0%	16.0	31.1	3.5%
SUMITPOWER	Fuel & Power	531	195	0.90	2.7%	0.7%	6.6%	10.7%	51.7%	40.1%	8.8	1.1	7.3%
LHBL	Cement	492	174	0.07	-7.3%	-9.8%	-15.8%	-29.4%	-52.7%	-72.1%	26.3	2.8	2.8%
OLYMPIC	Food & Allied	484	349	0.07	-1.4%	-13.5%	-5.5%	1.9%	-25.0%	53.3%	22.0	6.0	2.3%
TITASGAS	Fuel & Power	426	107	0.07	-3.2%	-8.5%	0.0%	-1.6%	-11.3%	-48.4%	9.5	0.5	6.6%
DUTCHBANGL	Bank	409	53	0.10	4.7%	0.4%	19.8%	39.3%	67.6%	111.9%	9.0	1.6	0.0%
ISLAMIBANK	Bank	412	210	0.08	-3.6%	-8.5%	-7.1%	-5.1%	-22.0%	5.5%	5.3	0.7	4.6%
BXPHARMA	Pharmaceuticals & Chemicals	404	350	0.11	0.1%	0.7%	6.3%	4.2%	5.0%	41.9%	11.4	1.2	1.5%
EBL	Bank	335	229	0.00	1.5%	-7.7%	12.2%	21.3%	61.9%	113.2%	8.9	1.3	5.2%
POWERGRID	Fuel & Power	319	76	0.25	-0.2%	-0.7%	21.7%	24.9%	11.4%	42.6%	7.6	0.5	2.9%
MJLBD	Fuel & Power	302	86	0.15	-6.5%	-11.5%	-18.9%	-12.9%	-18.3%	-18.3%	14.0	2.1	5.0%
NATLIFEINS	Life Insurance	322	56	0.04	2.5%	18.9%	17.5%	14.3%	98.5%	77.2%		28.9	0.7%
Market		**37,026**	**14,467**	**47.87**	**-2.9%**	**-8.0%**	**-8.1%**	**-7.8%**	**5.4%**	**-2.5%**	**13.2**	**1.7**	**3.4%**

*All returns are Holding Period Return.

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

Top Performing Mutual Funds:

The 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%) yielded the highest return. On YTD 2019 basis, VIPB Accelerated Income Unit Fund also posted the highest return (+4.5%).

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	12.0	4.5%	-7.8%	12.3%
Third ICB Unit Fund	ICB	3.6	-1.4%	-7.0%	11.2%
Seventh ICB Unit Fund	ICB	4.9	-1.3%	-11.9%	10.7%
LankaBangla 1st Balanced Unit Fund	LankaBangla	5.0	-2.1%	-2.0%	10.7%
Fifth ICB Unit Fund	ICB	4.0	-2.8%	-7.0%	10.4%
UFS-Popular Life Unit Fund~	UFS	9.3	-1.5%	-4.6%	10.2%
Sixth ICB Unit Fund	ICB	3.4	-1.4%	-9.3%	9.5%
MTB Unit Fund	Alliance	9.1	-1.5%	-4.2%	9.2%
Second ICB Unit Fund	ICB	1.5	-2.1%	-7.1%	8.7%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.5	-0.2%	-14.3%	7.7%
Market (Broad Index) Return (%)			**-7.7%**	**-13.8%**	**5.2%**

*Based on published NAV and DSEX point of September 30, 2019
~ 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 mixed return on YTD basis. SEBL1STMF (+4.0%) yielded the highest return on YTD basis. All these funds are traded at a lucrative discount compared to their NAV. Besides, all the funds also offered higher dividend yields compared to market (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	8.2	11.20	13.74	81.5%	11.6%	3.7%	-8.0%	13.3%	14.6%	2022
SEBL1STMF	VIPB	15.2	10.50	12.87	81.6%	11.4%	4.0%	-8.3%	12.8%	13.7%	2021
GRAMEENS2	AIMS	38.7	11.40	17.92	63.6%	7.9%	1.3%	-1.6%	12.2%	12.4%	2023
1JANATAMF	RACE	35.8	4.10	10.43	39.3%	7.3%	-0.6%	-4.5%	7.1%	10.3%	2030
RELIANCE1	AIMS	8.5	8.40	11.90	70.6%	11.9%	-1.7%	-1.1%	12.0%	10.2%	2021
PHPMF1	RACE	34.4	4.10	10.32	39.7%	7.3%	0.0%	-4.9%	8.5%	10.2%	2030
EBL1STMF	VIPB	17.6	5.20	10.25	50.7%	5.8%	-2.1%	-3.5%	9.5%	10.0%	2029
POPULAR1MF	RACE	36.8	4.00	10.41	38.4%	7.5%	-1.4%	-4.4%	8.3%	10.0%	2030
PRIME1ICBA	ICB AMCL	8.5	5.30	7.17	73.9%	11.3%	-2.9%	-8.6%	7.6%	9.4%	2020
ABB1STMF	RACE	29.8	4.00	10.52	38.0%	7.5%	-4.1%	-5.0%	8.5%	9.2%	2032
Market						**3.4%**	**-7.7%**	**-13.8%**	**5.2%**	**4.8%**	

1 Price and NAV published on September 30, 2019.

2 On last cash dividend declared.

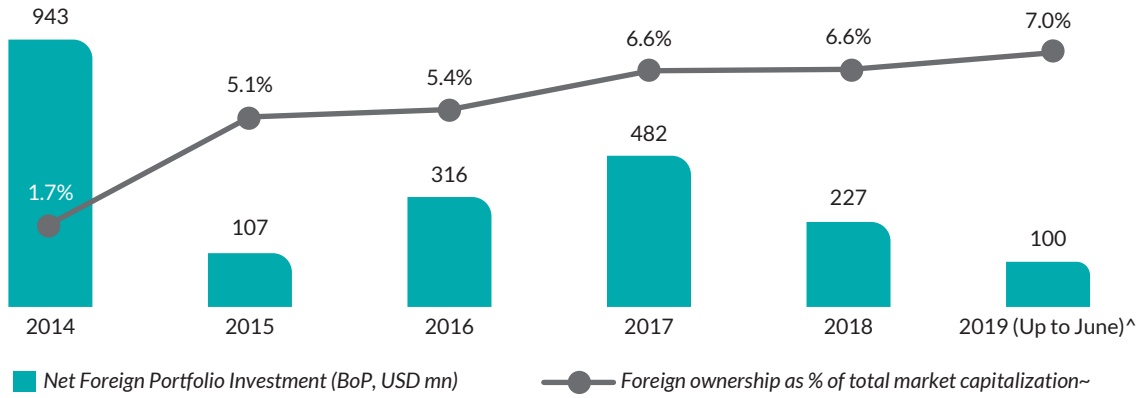
3CAGR computed for respected periods, except for 2018 and 2019 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4In reference to BSEC Press Release বিএসইসি/মুখপাত্র (৩য় খন্ড)/২০১১/১৫ 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 August, 2019 total foreign ownership stood at 7.0% 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
*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 (June).

Among all the companies with foreign ownership, BRACBANK had the highest foreign shareholding of 43.0% as of August 2018, followed by DBH with 42.8%.

Table 8: Top ten companies with highest foreign shareholding as of July

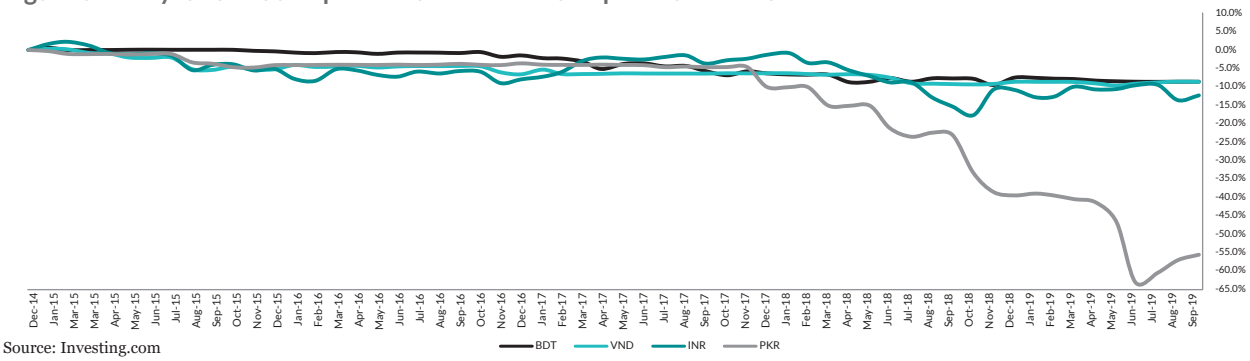
Ticker	Sector	Foreign Shareholding
BRACBANK	Bank	43.0%
DBH	NBFI	42.8%
OLYMPIC	Food & Allied	40.0%
BXPHARMA	Pharmaceuticals & Chemicals	37.2%
ISLAMIBANK	Bank	24.1%
RENATA	Pharmaceuticals & Chemicals	22.3%
MLDYEING	Textile	21.9%
SHEPHERD	Textile	20.2%
SQURPHARMA	Pharmaceuticals & Chemicals	20.2%
VFSTDL	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 8.4% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.4%, 12.1% and 54.5%, respectively.

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



Source: Investing.com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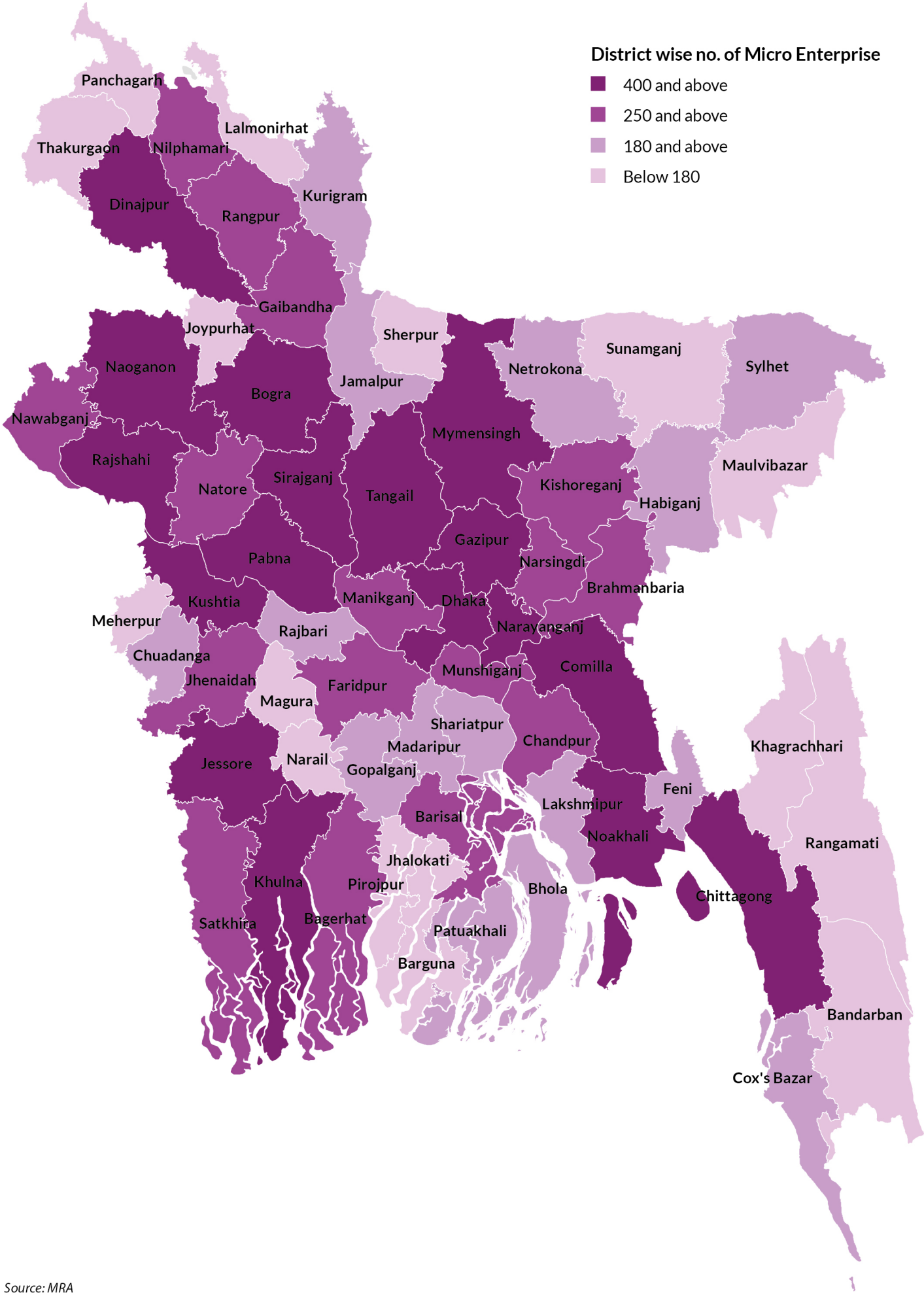
District wise no. of Micro Enterprise
400 and above
250 and above
180 and above
Below 180
Panchagarh
Thakurgaon
Nilphamari
Lalmonirhat
Dinajpur
Rangpur
Kurigram
Gaibandha
Joypurhat
Naoganon
Bogra
Nawabganj
Rajshahi
Natore
Sirajganj
Pabna
Sherpur
Jamalpur
Tangail
Mymensingh
Netrokona
Sunamganj
Sylhet
Maulvibazar
Kishoreganj
Habiganj
Gazipur
Narsingdi
Brahmanbaria
Kushtia
Meherpur
Manikganj
Dhaka
Narayanganj
Rajbari
Chuadanga
Jhenaidah
Munshiganj
Comilla
Faridpur
Magura
Shariatpur
Madaripur
Chandpur
Jessore
Narail
Gopalganj
Khagrachhari
Feni
Lakshmipur
Barisal
Noakhali
Rangamati
Jhalokati
Khulna
Pirojpur
Bhola
Chittagong
Satkhira
Bagerhat
Patuakhali
Barguna
Bandarban
Cox's Bazar

Source: MRA