

ROAD TO A GREEN BANGLADESH

Financial institutions survey:

Financial products for micro, small and medium-sized enterprises (MSMEs) and for financing electric vehicles (EVs) in Bangladesh



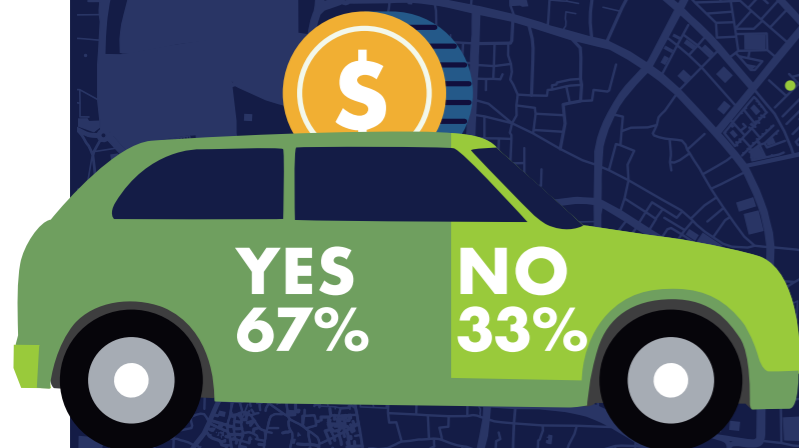
BACKGROUND AND EXISTING LOAN ASSESSMENT FRAMEWORK OF THE SURVEYED INSTITUTIONS

WHO DID WE SURVEY? (INSTITUTION TYPE)



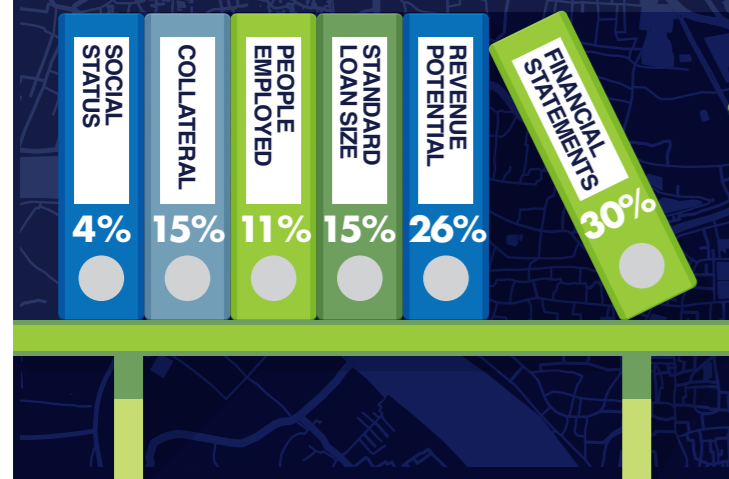
- Banks, Micro Finance Institutions and Non-Banking Financial Institutions that actively support micro, small and medium sized enterprises.

EXISTENCE OF FRAMEWORK FOR INTEREST RATE CALCULATION



- A specified framework for calculating loan interest rates exists in 67% of the surveyed institutions.

FRAMEWORK FOR DECIDING LOAN SIZE



- The financial statements, followed by revenue potential estimation, are the primary evaluation parameters used in the loan application decision process.

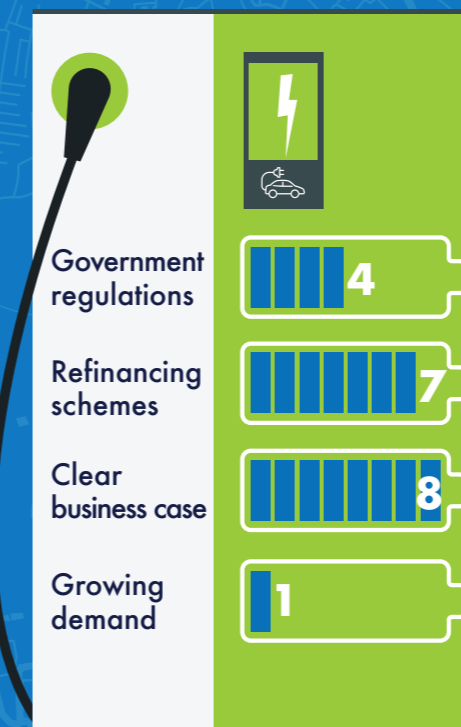
ELECTRIC VEHICLE FINANCING

LOAN PRODUCTS FOR RIDE SHARING COMPANIES

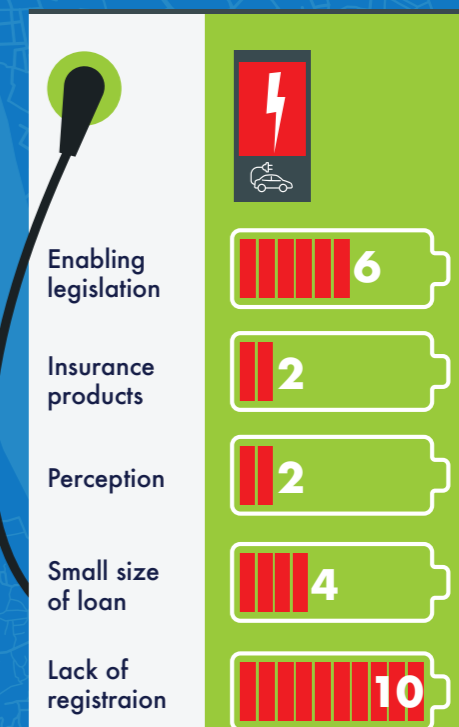


- Ride sharing companies are expected to play a key role in the EV (2-wheelers in particular) uptake in Bangladesh. However, around 2/3 of the surveyed institutions don't offer any loan products tailored for these companies.
- Lack of registration is considered as the main issue while providing loans to EVs, followed by the government regulation.
- Creating a clear and sustainable business case for using EVs is seen as the most powerful way of incentivizing EV finance, followed by presence of refinancing schemes.

WAYS OF INCENTIVIZING EV FINANCE

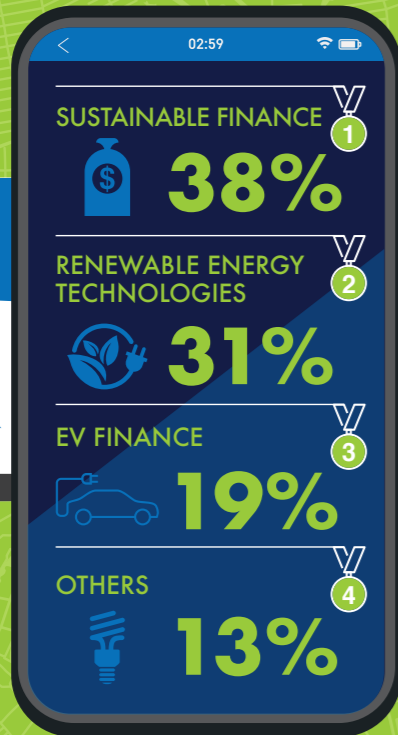


ISSUES IN PROVIDING LOANS TO EVS



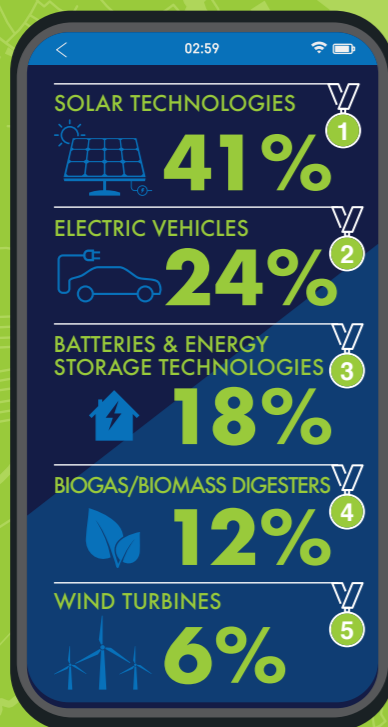
LOW CARBON LOAN PRODUCTS

EXISTING LOW CARBON LOAN PRODUCTS BY BANKS



- Sustainable finance is the major source of low carbon loan products and are offered by 6 of the surveyed institutions.
- This is followed by products specialised for renewable energy technologies, which is covered by 5 institutions through their low carbon loan products.
- EV finance is at third place with 3 financial institutions offering at least one loan product aimed at financing EV purchase.
- Some of the institutions offer multiple low carbon loan products.

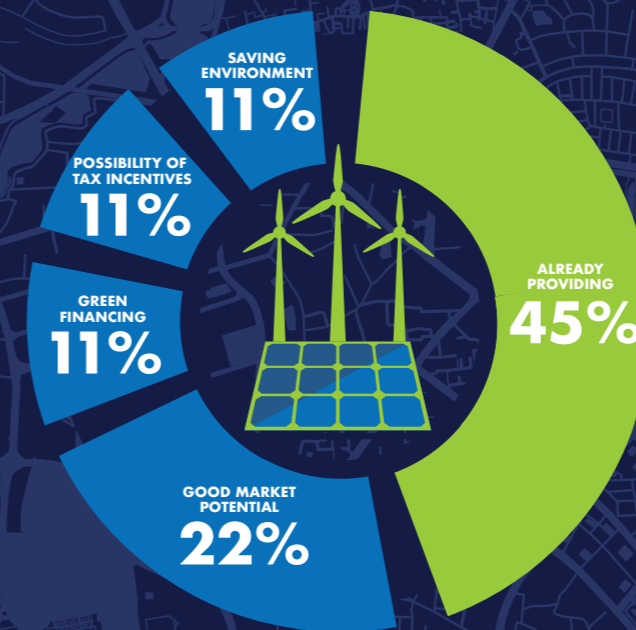
LOW CARBON TECHNOLOGIES ATTRACTIVE FOR BANKS



- Solar is the most preferred low carbon technology followed by electric vehicles.
- Some of the institutions indicated other technologies, such as energy storage and biogas/biomass as attractive low carbon technologies.

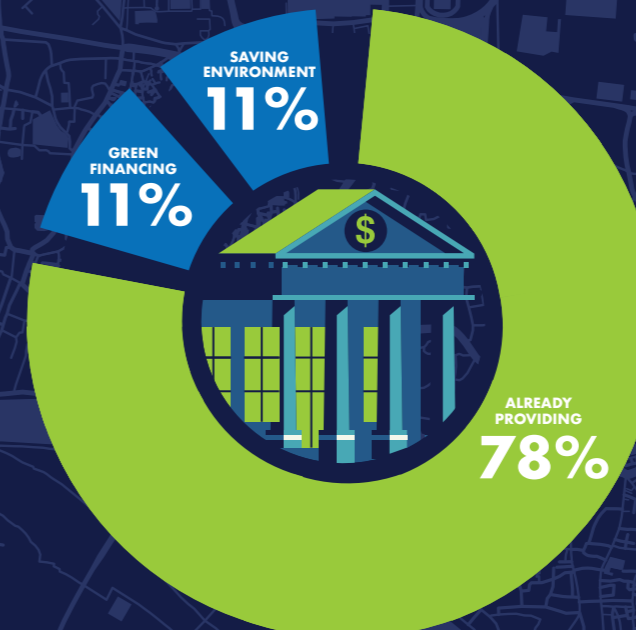
MOTIVATION FOR OFFERING LOAN PRODUCTS (RENEWABLE ENERGY AND SUSTAINABLE FINANCE)

MOTIVATION OF LOAN PROVISION FOR RENEWABLE ENERGY TECHNOLOGIES



- 45 % of the institutions are already offering loan products targeting renewable energy technologies.
- 22% is attracted by the market potential of renewable energy technologies.
- Possibility of tax incentives, saving environment and green financing are other motivation factors for providing loan in RE technologies.

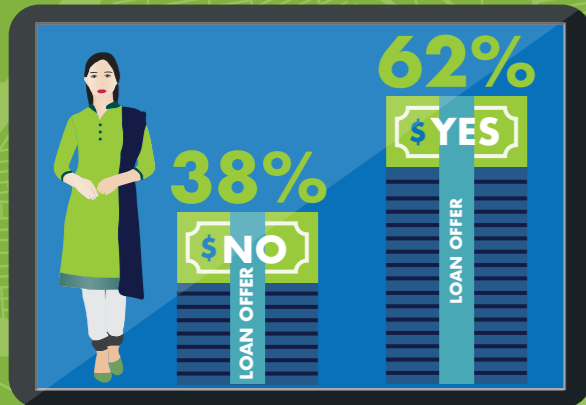
MOTIVATION OF LOAN PROVISION FOR SUSTAINABLE FINANCE



- More than 3/4 of the institutions are already providing sustainable finance related loan products.
- Green financing and environmental protection are other mentioned motivations for providing sustainable finance.

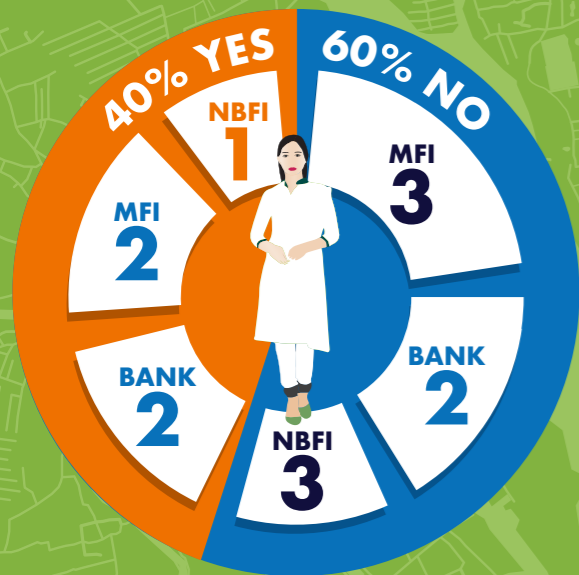
SERVICE TO WOMEN ENTREPRENEURS

EXCLUSIVE LOAN PRODUCTS FOR WOMEN



- Around 40% (5 institutions) do not offer any loan products tailored for women entrepreneurs, out of which two are venture capital firms.
- The venture capital firms would consider providing investments for women entrepreneurs with good business cases.

PERCEPTION OF GENDER AS REASON FOR RISK



- 40% of the surveyed institutions see gender of the entrepreneur / applicant as a risk factor.
- Commercial risk (e.g. uncertain revenue flow, stability of the business) seen by these FIs as the major risk in processing loan applications from women. This is followed by issues concerning documentation. Compared to other MSMEs, the risk associated with documentation is higher in case of women owned enterprises.
- Being a beneficial owner (i.e. where women owners not having full independence related to decision making because of husband being the ultimate decision maker) is another significant risk.

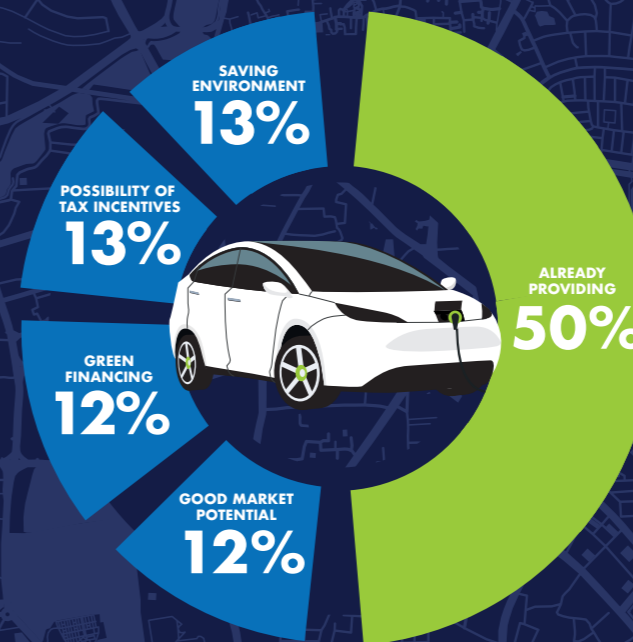
PERCENTAGE OF WOMEN ENTREPRENEURS AMONG CLIENTS

MICRO FINANCE INSTITUTION	NON BANKING FINANCIAL INSTITUTION	PRIVATE COMMERCIAL BANK
76% WOMEN	7% WOMEN	7% WOMEN
24% MEN	93% MEN	93% MEN

- Micro finance institutions have the highest women client base with an average of 75% of total client being women.

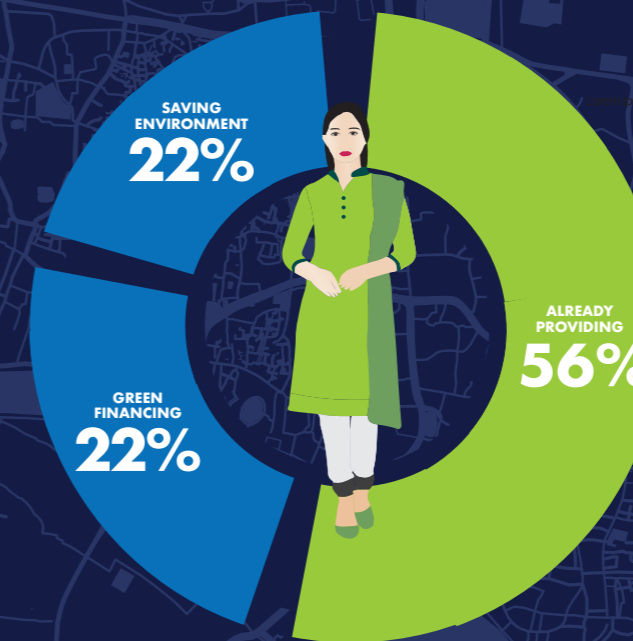
MOTIVATION FOR OFFERING LOAN PRODUCTS FOR EV FINANCE AND WOMEN ENTREPRENEURS

MOTIVATION OF LOAN PROVISION FOR EV FINANCE



- Half of the surveyed institutions are providing various loan products for EV financing.
- Motivations for introducing loan products tailored for EVs include market potential, policy mandate, possibility of tax incentives and saving environment.

MOTIVATION OF LOAN PROVISION FOR WOMEN



- More than half of the surveyed institutions are providing various loan products specifically tailored for women entrepreneurs.
- Motivations for introducing such loan products are policy mandate and social inclusion.

MAIN RISK FACTORS CONSIDERED IN LOAN APPLICATIONS

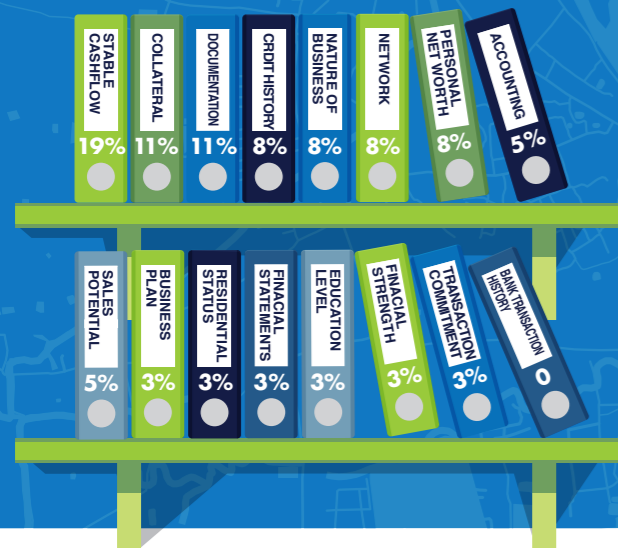
DIFFICULTIES FACED DURING THE LOAN APPLICATION

- Commercial risks (e.g., financial stability and cash generation potential, vulnerability to pandemics like COVID) are the major risks considered in processing loans to MSMEs and women led/owned enterprises.
- For micro / small enterprises, business continuity risk (the risk of the business being able to maintain sustainable business operations) is seen as the second most significant risk.
- For medium enterprises, verification / validation of the data submitted is considered as the second most significant risk.
- For women owned enterprises, documentation is the second most significant risk.
- Overall, availability of sufficient collateral, a business plan and documentation are reported to be the major difficulties faced by MSMEs during loan application.






RISKS IN LOAN APPLICATION	MICRO/SMALL ENTERPRISES	MEDIUM ENTERPRISES	WOMEN ENTERPRISES
Commercial Risk	26%	32%	38%
Business Continuity Risk	16%	4%	13%
Credit Risk	13%	4%	6%
Data Verification	10%	12%	-
Documentation	6%	4%	19%
Inadequate Accounting	6%	4%	-
Selection	6%	-	-
Beneficial Owner	-	4%	6%
Lack of Business Plan	3%	4%	6%
Interest Rate Risk	3%	4%	-
Limited Scope of Expansion	3%	-	-
Timely Repayment	3%	-	-
Operational Cost	3%	-	-
Succession Risk	-	8%	6%
Social Status	-	4%	6%
Political Risk	-	4%	-
Willful Default	-	4%	-
Exchange Rate	-	4%	-
Fund Diversion	-	4%	-
Loan Size	-	-	-

FACTORS OF SUCCESS DURING LOAN APPLICATION

- Availability of a stable cash flow is considered as the major success factor for loan approvals.
- This is followed by the availability of required documentation, availability of sufficient collateral for loan, nature of business, social network and personal net worth are other notable success factors.



HIGHLIGHTS

SERVICES TO WOMEN ENTREPRENEURS	PERCEIVED RISKS	LOW CARBON LOAN PRODUCTS	DIFFICULTIES IN LOAN APPLICATIONS	SUCCESS FACTORS IN LOAN APPROVALS
 <p>Micro finance institutions have the highest proportion of women clients, yet nearly half of the institutions consider loans provided to women entrepreneurs to be risky from a commercial standpoint.</p>	 <p>Commercial risk is considered as the major risk involved in issuing loans to MSMEs and women owned enterprises. For women owned enterprises, documentation was named as the second most significant risk.</p>	 <p>Electric vehicles are the second most attractive low carbon loan product for the FIs. Lack of registration and enabling legislation are considered the most significant barriers in providing loans for EV purchase.</p>	 <p>Lack of sufficient collateral and documentation are main difficulties that MSMEs are facing during the loan application process.</p>	 <p>Availability of stable cash flow, required collateral and documentation are considered as the most important success factors in successful loan. financial statements for evaluating the loan size.</p>

FINANCIAL INSTITUTIONS SURVEYED

 EBL	 PRIME BANK	 BRAC	 WAVE FOUNDATION	 INFRASTRUCTURE DEVELOPMENT COMPANY LIMITED	 BASIC BANK
 SOCIAL ISLAMI BANK LIMITED	 CITY BANK	 IDLC FINANCE	 STARTUP BANGLADESH LTD.	 IDLC VENTURES	 BANGLADESHI KRISHI BANK
DINAJPUR		JASHORE		NATORE	
 PRIME BANK	 RURAL RECONSTRUCTION FOUNDATION	 AVA DEVELOPMENT SOCIETY			

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