



i-SME: helping small businesses in Bangladesh prepare for loans

Making small businesses more attractive to formal financial institutions.

How the market failed to deliver

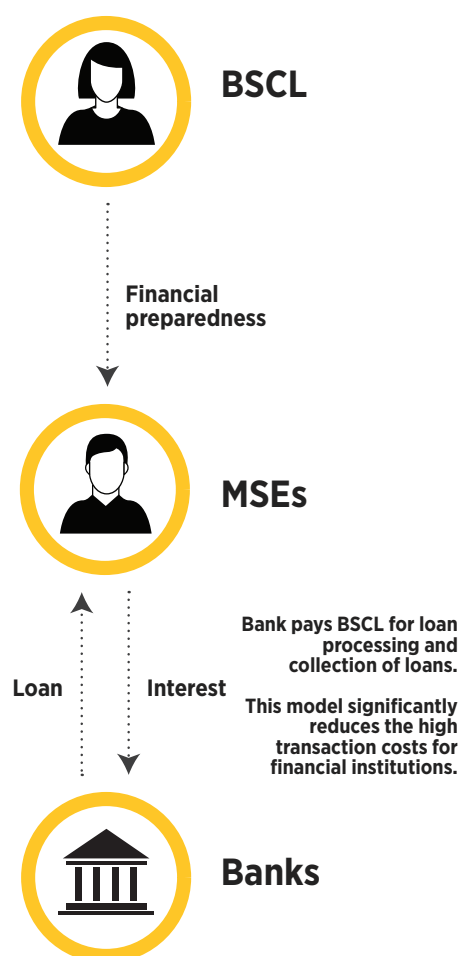
Micro and small enterprises (MSEs) often struggle to access finance from formal financial institutions. These businesses lack, for instance, organised financial data, legal documents, proof of repayment ability, credit rating, and financial literacy to be eligible for bank loans. Meanwhile, the transaction cost for financial institutions to reach out to these MSEs is very high, so they miss out on a big market. The i-SME project acts as a virtual “match-maker” between lender and borrowers to address these challenges.

How BFP-B solved the market constraint

Implemented by Bangladesh SME Corporation (BSCL), i-SME enhances financial preparedness of MSEs to make them more attractive to formal finance institutions by: (i) digitising and organising individual MSE business processes (accounting, audit, credit rating, incorporation); (ii) mapping the organisational data to deliver a complete loan application; (iii) educating MSMEs on financial literacy. Through the services provided by i-SME, MSEs are now successfully applying for loans from formal financial institutions.

The project aims to provide at least two services using i-SME platform to 8,000 MSEs and facilitate 2,000 bank loans.

i-SME incentive model



THE STORY OF MOSAMMAT REHANA BEGUM



Rehana Begum owns a household handloom unit that produces Jamdani sarees in Sonargaon Upazilla of Narayanganj district. She started her business 7 years ago with 1 handloom and produces an average of 3-4 per month, with a monthly net profit of BDT 6,000-8,000. Rehana sees increasing demand for jamdani sarees, but has lacked access to finance for the investment for another handloom.

Rehana took a microfinance loan from BRAC for her first unit, but realised that weekly repayment installments and high interest rates were affecting her cash flow cycle. She dropped the microfinance option and considered a bank loan, but was unable to comply with requirements such as financial statements of her business, satisfactory transaction history, and security documentations. She also had no one to consult for the loan application process.

How i-SME interventions solved market constraints

iSME assisted Rehana in

preparing legal documents, financial documents, and security arrangements. Based on these, i-SME prepared a Credit Evaluation Report, comprising corporate profile, organised financial statements, ratios with three-year trend analysis, credit evaluation score, capital structure, and financial risk analysis. With i-SME's support, Rehana applied to Bank Asia for a loan, which used the data to provide a loan of BDT 50,000 in January 2017.

How has Rehana's business been impacted?

Rehana invested the loan in a second handloom, storage shed and inventory stock. The loan also enabled Rehana to purchase inventories such as yarn, dye and other accessories for cash-reducing dependency on higher cost credit purchase. Now, with 2 handlooms, Rehana produces 8-10 sarees per month. Her revenue has increased to BDT 24,000-30,000, with an increased monthly net income of BDT 16,000-20,000. She is comfortably paying the monthly loan repayment of BDT 2,200. She also learned through an i-SME centre that she can apply for a larger loan after repayment of her current loan.

Rehana now anticipates expansion, with more looms and employees. "The market demand for Jamdani Saree has been increasing constantly," says Rehana. "All that I needed was additional finance."

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50k BDT

loan successfully applied for after i-SME support

100%+

increase in production and net monthly income

Discounts

resulting from bulk inventory purchases enabled by the loan

About the BFP-P project

The Business Finance for the Poor in Bangladesh project is a £25m strategic partnership between the UK and Bangladesh governments to boost access to financial services for small businesses.

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