

Terms of Reference

Consultancy services on ‘Development of Microenterprise Lending Policy Guidelines for MFIs’

1.0 Project Background:

Business Finance for the Poor in Bangladesh (BFP-B) is a 6.5-year programme funded by UK aid from the UK government. The Bangladesh Bank (BB), the central bank of Bangladesh, and Microcredit Regulatory Authority (MRA) are the implementing agencies, and the Financial Institutions Division (FID) of the Ministry of Finance (MoF), Government of Bangladesh (GoB), is the executing agency. Nathan Associates London Ltd. is appointed as the management agency for the programme. The programme aims to improve access to finance for micro and small enterprises (MSEs) and create economic opportunities for small business in Bangladesh through improvements in the policy and regulation of financial services, innovations in the nature and scope of financial services targeting the poor and strengthening of information systems supporting micro-finance and bank lending. BFP-B has three components: a Challenge Fund, a CIB-Microfinance, and a Policy Component. This scope of work is part of the Policy Component.

2.0 Purpose of this consultancy services:

The Policy Advisory Committee (PAC) of BFP-B Project, chaired by Secretary, Financial Institutions Division of Ministry of Finance, and other 17 key members representing from senior management of government agencies, regulatory bodies (Bangladesh Bank, Microcredit Regulatory Authority, Insurance Development and Regulatory Authority), apex organisations, financial sector associations and chambers of commerce, approved a total 8 policy issues for detailed study including a study on MFS. BFP-B conducted a study on **‘Review the SME Credit- related policies of Bangladesh Bank: Identify areas of further improvement by focusing on MSE Finance’**. One of the key recommendations of this policy study is development of Microenterprise (ME) policy guidelines for MFIs by the Microcredit Regulatory Authority (MRA). BFP-B presented this recommendation to MRA with justification of adopting ME policy guidelines for MFIs. MRA Board has agreed with the justification and accepted technical assistance proposal of BFP-B to develop ME guidelines for MFIs. This consultancy service is part of BFP-B technical assistance to MRA.

3.0 Background of Microenterprise lending by MFIs in Bangladesh:

Micro and Small Enterprises (MSEs) contribute almost 25% GDP and half of the employment of Bangladesh. According to Bangladesh Bureau of Statistics (BBS) Economic Census 2013, there are 7.81 million economic entities in Bangladesh among which 88% are recognized as micro and cottage enterprises, they constitute nearly 75% of non-agricultural employment. According to CDF Microfinance Statistics 2016-17, total BDT 361.10 billion ME loans were disbursed by the MFIs in 2016-17, which was 29.95% higher than the previous year¹. As of June 2017, the top 20 MFIs disbursed BDT 262 billion ME loans, which was 36% higher than the previous year². The ME loan outstanding of top 20 MFIs was BDT 160 billion, which was 35% of total loan portfolio of the top 20 MFIs. The ME lending of top 20 MFIs are increasing higher rate than other MFIs. The average ME loan size of the MFIs was BDT 100,000 in June 2017 and the average ME loan size of top 20 MFIs was BDT 131,000, which was 31% higher.

¹ CDF (2017), Microfinance Statistics 2016-17, Credit and Development Forum (CDF), December 2017. Total 247 MFIs have ME programme.

² MRA (2017), NGO-MFIs in Bangladesh.

4.0 Statement of the Problem and Issues:

As per the Microcredit Regulatory Authority (MRA) rules 2010, ME loan outstanding of an MFI should not be more than 50 per cent of the total Microcredit outstanding loan. As of June 2017, the ME loan outstanding of all MRA licensed MFIs³ was 31% of total Microcredit loan outstanding. As of June 2017, among the top 20 MFIs, the ME loan outstanding of 10 MFIs reached more than 40% of total Microcredit loan outstanding.

As per practice of the sector, loan size BDT 50,000 and above has been considered as ME loans. At present MRA doesn't have any guideline on ME lending. The ME lending guideline will help MFIs to identify target clients, understand risk management mechanism, reporting system etc. ME guideline will allow MFIs to increase ME loan disbursement. It is estimated that BDT 70 billion additional ME loans will be disbursed to 0.5 million new ME borrowers.

Bangladesh Bank has defined ME loan by following definition of National Industrial Policy 2016. According to National Industrial Policy 2016, the definition of ME is-a) for manufacturing ME, the value of fixed asset except land and factory building between BDT 1 million to BDT 7.5 million or number of workers between 16-30, b) for service ME, the value of fixed asset except land and factory building is BDT 1 million or number of maximum workers is 15, and c) for trading, the value of fixed asset except land and factory building is BDT 1 million or number of maximum workers is 15.

Bangladesh Bank SME policy has advised banks can disburse up to BDT 10 million for manufacturing ME and BDT 2.5 million for service and trading ME. MRA can develop ME lending policy in the light of National Industrial Policy 2016 and advise minimum and maximum loan ceiling for different types of MEs.

5.0 Overall Objective:

The purpose of the assignment is to develop a ME lending policy guideline for MFIs in the light of National Industrial Policy 2016 and SME policy directives of Bangladesh Bank.

6.0 Scope of the assignment:

Definition of ME for MFIs: The guideline should include definition of ME in the light of National Industrial Policy 2016, SME guidelines of Bangladesh Bank and considering the Microfinance context of Bangladesh.

Scope of ME lending by MFIs: The guideline should provide scope of ME lending by MFIs by considering the below, but not limited to- a) target client selection process (both existing progressive borrowers and later entry clients), b) geographic and gender preference, c) required documentation for ME loan disbursement, d) types of loan products MFIs can offer to ME clients, e) minimum and maximum loan ceiling, f) loan approval process, g) lending method (individual and/or group lending), h) minimum and maximum loan tenor, i) grace period based on loan tenor, j) repayment method, k) risk management mechanism e.g. general risk, credit and operational risks, l) loan classification, rescheduling and loan loss provisioning, m) maximum allowable limits of ME loans of total Microcredit loan outstanding based on grading of MFIs, n) criteria for grading of MFIs e.g. capital adequacy ratio, current ratio, debt-equity ratio, On-time Recovery Rate (OTR) etc., o) types of non-financial services MFIs can offer to the ME clients, and k) client protection principles.

Monitoring, evaluation and reporting: The guideline should include-a) internal control and audit, b) monitoring and supervision, c) online credit information of ME clients, d) report to MRA online Microfinance Credit Information Bureau (MF-CIB), e) submission of monthly and annual report to MRA according to prescribed format.

³ As of June 2017, total 783 licensed MFIs reported to MRA.

7.0 Detailed tasks and suggested methodology:

The consulting firm is expected to submit a technical proposal with methodology and outline of guideline. After shortlisting of consulting firm, the methodology and deliverables will be refined through a kick-off meeting with BFP-B and MRA. The inception report will be submitted with the revised methodology and work plan. The methodology is expected to cover following major areas:

Literature review: Review National Industrial Policy 2016, guidelines and circulars of Bangladesh Bank and MRA to avoid contradiction and ensure synergies. Review national strategies, reports, journals, articles etc. relevant to SME lending by banks and ME lending by MFIs and also review global best regulatory practices on SME lending by banks and ME lending by MFIs. The list of key documents to be reviewed and rationale for how each of one will aid to develop the guideline should be provided in the technical proposal.

Stakeholder consultation: The consultants may consult with MRA, relevant departments of Bangladesh Bank, relevant government agencies, apex organisations, MFIs, banks and NBFIs, microfinance networks and other relevant stakeholders. The list of stakeholders with rationale for selection and the purpose of consultation with each stakeholder should be provided in the technical proposal. Also, propose number of interviews and focus group discussion to be conducted and categories of respondents/participants.

8. Deliverables:

Consultant will deliver the following outputs:

- Inception report containing methodology, outline of guideline with key headings and work plan (main report should not exceed 10 pages and information collection instruments should be provided in the annex)
- Draft guideline on ME lending by MFIs with rationale of each sections and clauses of the guideline. The guideline will be in two parts-1) Draft ME lending guideline in both English and Bangla, 2) Rationale and analysis of each section and clause of the guidelines in annex.
- Final guideline and report with rationale supporting the clauses of ME lending guideline by incorporating comments of MRA, BFP-B and key stakeholders. The final guideline should be in both English and Bangla.
- Power Point presentation of the guideline with rationale and analysis of each section.
- 2-pagers summary infographic. This includes analysis with rationale of each section of guideline.

9. Schedule of assignment:

- Estimated start and end date: 9th June 2019 to 31st August 2019

The schedule of assignment will be finalised upon signing of the contract by Nathan Associates London Ltd.

10. Reporting

The consultant shall report to the BFP-B Team Leader and Policy Manager for overall strategic and technical guidance. The BFP-B Policy Coordinator will be the primary contact for this assignment. The BFP-B Team Leader upon confirmation from MRA and DFID will approve the output of this consultancy services and BFP-B will submit the final ME lending policy guideline for MFIs to MRA for approval.

11. Qualifications of Consulting Firm / Individual Consultant:

The consulting firm must be registered with a legal entity/ relevant licenses under legal authorizations. The firm should have at least 10 years of research experience in the area of Microfinance, Microenterprise, financial inclusion, access to finance, financial sector policy and regulation. For individual consultant, the consultant should have at least 10 years of research experience in the area of Microfinance, Microenterprise, financial inclusion, access to finance, financial sector policy and regulation.