

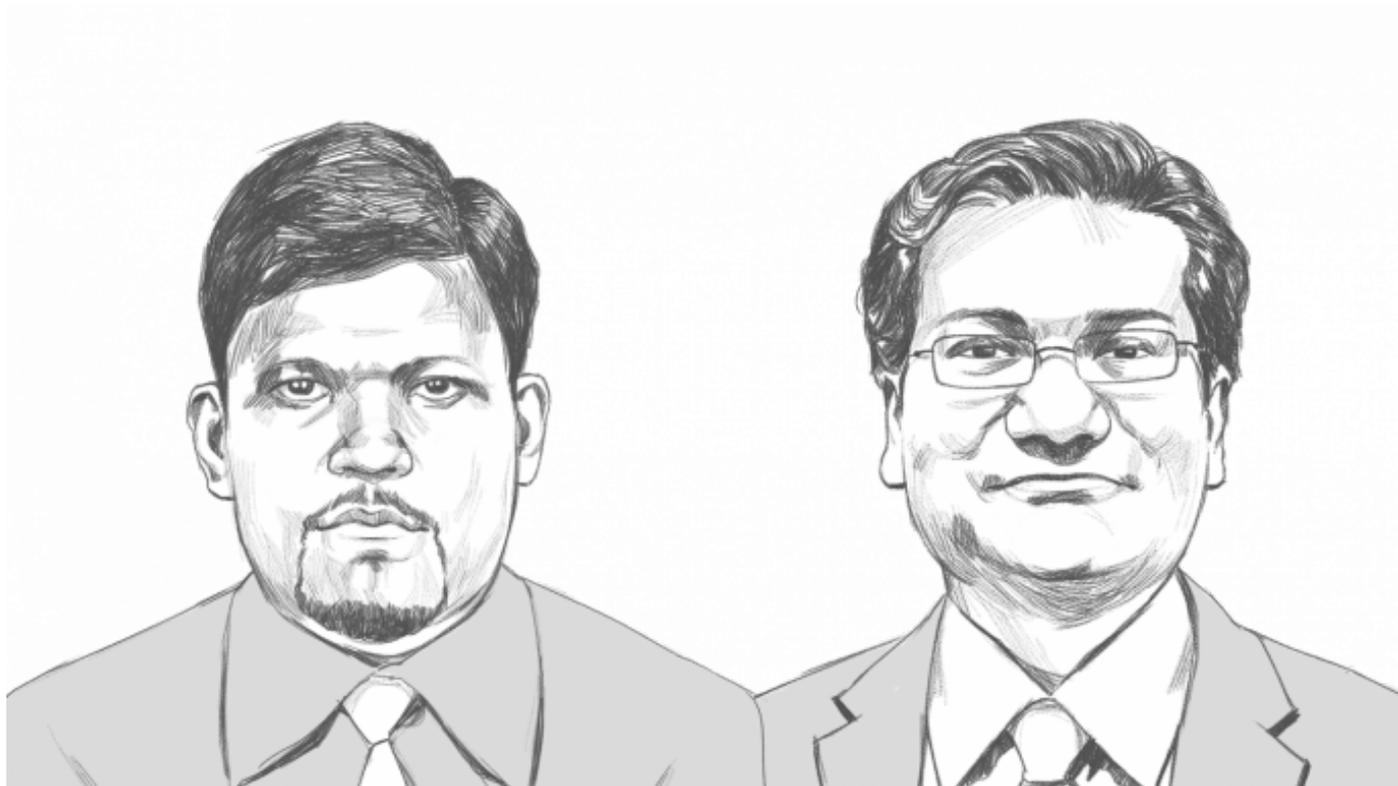
TUESDAY, OCTOBER 11, 2022

---

**This article focuses on identifying and understanding the incentives and other enabling factors for financing CMSMEs****Rezwanul Haque Jami & Anir Chowdhury**

24 March, 2021, 10:45 am

Last modified: 24 March, 2021, 12:46 pm



Rezwanul Haque Jami and Anir Chowdhury. Illustration: TBS

Digitisation has been at the heart of Bangladesh's development journey ever since the administration of Prime Minister Sheikh Hasina introduced the Digital Bangladesh vision back in 2009.

Since then, Bangladesh has connected its second submarine cable, more than quadrupling its bandwidth and reducing the price of international internet bandwidth by about 90%-- making the internet affordable to the marginalised. 4G services are being provided in telecom and internet services while 5G is in the pipeline. With respect to on-the-land communication infrastructure, we have established over 110,000 km of fibre optic cabling and declared it as a key component of our national emergency service. In 2018, we launched Bangabandhu-1, Bangladesh's first satellite.

With the capital Dhaka ranking third in freelance IT and IT-enabled services outsourcing globally, over 157 million mobile phone users, 91 million internet users and 99 percent geographical coverage in voice and data connectivity, the country is on the fast lane towards massive digitisation. Registered mobile money accounts in Bangladesh are growing faster than in any other country and contributing immensely to the cause of financial inclusion.

The impact of this digitisation process on human development is visible already – Bangladesh has become the world's 30th largest economy with a GDP approaching one trillion dollars. Our social indicators such as gender equity, women's empowerment, life expectancy, primary school enrolment, reduction in child and maternal mortality rates and health hazards are remarkably better than those predicted for countries with twice its per capita income.

However, while digitisation, particularly the electronic delivery of public services and digital payments, has undoubtedly been a great equaliser across the board, there are some important segments of the Bangladesh economy that remain underdeveloped and largely excluded.

 Bijaya Chakma (standing), a trainer, giving computer training to local youth of Rangamati. Photo: Collected

Bijaya Chakma (standing), a trainer, giving computer training to local youth of Rangamati. Photo: Collected

This is the issue at hand when thinking about Bangladesh's cottage, micro, small and medium enterprises (CMSME) and bringing a greater proportion of the sector under digitisation in the spirit of inclusive innovation.

This article focuses on identifying and understanding the incentives and other enabling factors for financing CMSMEs.

The overarching incentive for financial service providers is one of cost-cutting, namely to bring down the cost of lending to CMSMEs, which can be achieved through digital inclusion. To this effect, there are six key points:

### **1. Identity**

Just as we have created a digital identity for individuals using eKYC, we need to create digital identities for our CMSMEs. This is the obvious first point, for any entity that wishes to be included in the digital framework, it must have a digital identity.

How to go about doing this is another matter. If we are to take trade licenses of individual organisations as their identity, then obtaining separate trade licenses will be extremely difficult. a2i however, is working on a centralised trade license system, and this could be a solution to simplifying the process.

## **2. Linked Transaction History**

A CMSME may be conducting transactions, and digital transactions at that, through an MFS, but that does not provide them with a transaction history that is directly related to the entity.

The app TallyKhata is a good example of how this can be achieved. The existence of linked transaction history for a CMSME entity directly correlates with the next point. a2i-ekShop's "Bazar Bondhu" network in 4 districts is another example where an accounting system-enabled e-commerce link is pushing financial inclusion and economic resilience together in the micro-merchant segments.

## **3. Credit Worthiness Criteria**

The only way to reduce the cost of providing credit to a CMSME entity is to figure out the creditworthiness of the entity. There are some important caveats to this issue. Firstly, this creditworthiness has to be achieved electronically; it would not be feasible to sit and interview and go over documentation of specific entities. This is where the eKYC and the linked transaction history come in to help provide a low-cost, electronic creditworthiness mechanism.

Second, with the millions of entities under the CMSME umbrella, this as an initiative must start small, with collaborative experimentation playing a key role in establishing this creditworthiness in CMSMEs, where MFS providers and traditional banks can all play a part, with support from a2i.

## **4. Awareness and Skills**

It is vital for any entity to be aware of the precise benefits and potential drawbacks of being digitally included. For example, CMSMEs suddenly transitioning from paper transactions to a digital system may be slapped with a hefty VAT. We thus need to be mindful of the need to help CMSMEs navigate such potential issues.

Specific skills are also required to be instilled into the personnel of these enterprises. For example, if TallyKhata is the tool provided, then the skills developed must be complementary to that. For such a novel idea, with novel skill development required, a precise understanding of the context will be critical.

## **5. Safety Framework**

This point harkens back to the original issue of transitioning to digital, namely, what are the issues a CMSME entity could face. Right off the bat, the formalities associated with the newer system will be difficult to adapt to.

However, the bigger safety concerns are common to the digital space -- for example, data privacy and the risk of digital identity theft. Therefore, there is also a need for specific safety frameworks focused on the CMSMEs.

## **6. Partnership Framework**

For all of the ideas presented above, there is a clear understanding that none of it is possible in isolation, and that there need to be multiple moving parts to achieve the desired outcomes. Just a bank, or MFS, or even the government -- any one sector in isolation cannot do this. This has to be a collaborative effort, of working together.

What this means is a digital partnership framework -- one built on agreements and APIs for electronic handshakes so that there is little need for signing multiple MoUs. The key here is to operate without losing business incentives and proprietary advantage for businesses, but keeping in mind that the quick electronic handshakes will be key to reducing the cost of doing business for the providers.

azi is keen to support and accelerate the development of such a framework, and it would be central to the success of future digitisation initiatives concerning CMSMEs.

### **We cannot forget the demand side**

While the above-mentioned points talk about the providers' actions to help facilitate the smooth transitioning to digital for CMSMEs, as alluded to at the beginning of the post, all actions are irrelevant if there is little incentive for the CMSMEs themselves to switch to digital. This is true for the CMSMEs' customers as well, who will also need to be incentivised to switch to digital payments from cash. Ultimately, it is only when all sides are in agreement and are sufficiently incentivised to accept changes will the process of bringing CMSMEs under a digital financial framework be possible.

---

*Rezwanul Haque Jami is the Team Lead - Rural eCommerce & Head of Commercialisation at azi*

*Anir Chowdhury is a Policy Advisor at azi*

---

**Disclaimer:** The views and opinions expressed in this article are those of the authors and do not necessarily reflect the opinions and views of The Business Standard

---

## **FEATURES**

 Sketch: TBS

 Illustration: TBS

**The ways to reinvent climate change adaptation in Bangladesh and beyond**

2h | [Thoughts](#)

**'Central Bank leaders do not exercise their power'**

3h | [Panorama](#)

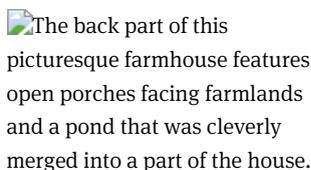


Photo: Asif Salman  
**Shikor: Interpreting tradition in modern architectural language**

3h | [Habitat](#)

 Eyamin Sajid. Sketch: TBS

**What we can learn from how Russia controls radiation at its largest nuclear plant**

3h | [Thoughts](#)

---

## **MORE VIDEOS FROM TBS**

 How long will load-shedding

 Requirements for hosting

 North Korea test fires 7

 Nora Fatehi dances to the

continue?

FIFA World Cup

ballistic missiles in a week

World Cup theme song

## **How long will load-shedding continue?**

4h | [Videos](#)

## **Requirements for hosting FIFA World**

### **Cup**

16h | [Videos](#)

## **North Korea test fires 7 ballistic missiles in a**

### **week**

17h | [Videos](#)

## **Nora Fatehi dances to the World Cup theme**

### **song**

17h | [Videos](#)

EMAIL US

[contact@tbsnews.net](mailto:contact@tbsnews.net)

FOLLOW US



WHATSAPP

+880 1847416158

[About Us](#)

[Contact us](#)

[Sitemap](#)

[Privacy Policy](#)

[Comment Policy](#)

Copyright © 2022

The Business Standard All rights reserved

Technical Partner: RSI Lab

## **Contact Us**

### **The Business Standard**

Main Office -4/A, Eskaton Garden, Dhaka- 1000

Phone: +8801847 416158 - 59

Send Opinion articles to - [oped.tbs@gmail.com](mailto:oped.tbs@gmail.com)

For advertisement- [sales@tbsnews.net](mailto:sales@tbsnews.net)