Gates Foundation

MSC
MicroSave Consulting

Busara

Impact of digital platforms on microenterprises in Bangladesh

Deep dive qualitative insights

December 2024

Sample coverage

End-user IDIs sample

End-User description	Users	Non-users
29 samples	20	9

Gender-wise distribution

Gender	Platform	Non-platform
Male (72%)	15	6
Female (28%)	5	3
Total	20	9

Sector-wise sample

Sectors	Platform	Non-platform
Retail trade (11)	8	3
Social selling (10)	6	4
Transport and logistics (8)	6	2
Total	20	9

Location type

Urban (20)	Platform	Non-platform
Male	12	3
Female	3	2
Total	15	5

Rural (9)	Platform	Non-platform
Male	3	3
Female	2	1
Total	5	4

Focus of this study

- Business economics
- Credit and BNPL
- The platform’s role in enabling credit
- MEs’ stickiness to the platforms

MEs’ business economics

Retail traders found the platform helpful during the pandemic, but its growth declined afterward.

MEs purchase stocks (92% of all expense) from:

- FMCG companies (61%),
- Wholesalers (25%),
- Digital platforms, such as Mokam (6%).

Profit margins:

- Retailers earn 10% profit, while wholesalers make 2% on stock sales.

Expenses:

- MEs incur additional costs when wholesalers deliver stock directly to outlets, which include:
- Transportation fees: USD 0.30 per sack;
- Labor charges: USD 0.60 – 0.70 per sack, which vary regionally.

Credit helps in business growth:

- Term loans, CC loans, and BNPL drive MEs' growth.
- BNPL adds flexibility to stock purchase and increase profitability.

Year-wise business economics of MEs

Last five year (2019-23) (monthly)			Contribution from digital platform	
Year	Total expense (USD)	Total profit (USD)	Expense (USD)	Profit (USD)
1	5,682	505	1,745	70
2	4,182	409	2,727	136
3	6,477	541	1,818	109
4	7,121	538	1,173	77
5	8,115	590	386	29

**The platform reduced engagement with MEs by year 5.
This led to a decrease in MEs' profit contribution from the platform**

Expenses breakdown* (monthly)

Common expenses	FMCG purchase	Wholesale purchase	Purchase from DP	Perishable purchase	Rent	Utility bills	BNPL charge (DP)	Trade license	Total
Percentage	61	25	6	4.50	2.50	0.46	0.31	0.03	100

Most monthly expenses occur in stock purchasing.

*MSC's deep-dive study insights

Digital platforms emerged as the primary source of income for MEs in transport and logistics.

Capital investment vs output:

- Despite high interest and installment rates from fleet financers, MEs make good profits, which signifies the credit demand from the trucking industry.

Seasonality affects income:

- **Urban small trucks:** Monthly peak occurs at the month-end.
- **Rural small trucks:** Peak demand is around November to January (winter harvest).
- **Large trucks:** Peak demand is from March to August (import or export cycles).

Key insights:

- Digital platform cut commission to 7% from 9% due to MEs' demands.
- Urban demand is high, but rural penetration remains low due to limited demand.

Year-wise business economics of MEs

Last 5 year (2020-24) (Monthly)			Contribution from digital platform	
Year	Total expense (USD)	Total profit (USD)	Expense (USD)	Profit (USD)
1	300	150	-	-
2	320	170	-	-
3	350	180	25	75
4	400	200	28	120
5	450	220	32	132

Most MEs joined a platform from 2022.

Expenses breakdown* (monthly)

Common expenses	Fuel	Driver's commission	Installment	Maintenance	Garage rent	Platform cost	Engine oil	Total
Percentage	40	15	15	10	8	7	5	100

Most expenses occur in fuel consumption and drivers' commission.

*MSC's deep-dive study insights

Expenses breakdown* (monthly)

Digital platforms provide a new opportunity for social sellers to make a living.

Cost optimization and scalability:

- Credit from banks (Bank Asia, BRAC Bank) and government organizations has significantly helped MEs expand and boost their businesses over the years.

Marketing investments:

- MEs spend USD 30 on fair stalls to enhance their physical presence and boost Facebook engagement.

Skill development required to operate through platforms:

- Affordable training options (WE workshops: USD 4–6 per course) and USD 20 per year memberships promote resilience and growth.

Key insights:

- Digital platforms' unfavorable return policies or increased costs hinder growth.
- Pathao's OTP-based return policy minimizes unnecessary losses.

Yearly business economics of MEs

Year	Expense (USD)	Profit (USD)
1	364	136
2	455	273
3	545	318
4	782	439
5	991	536

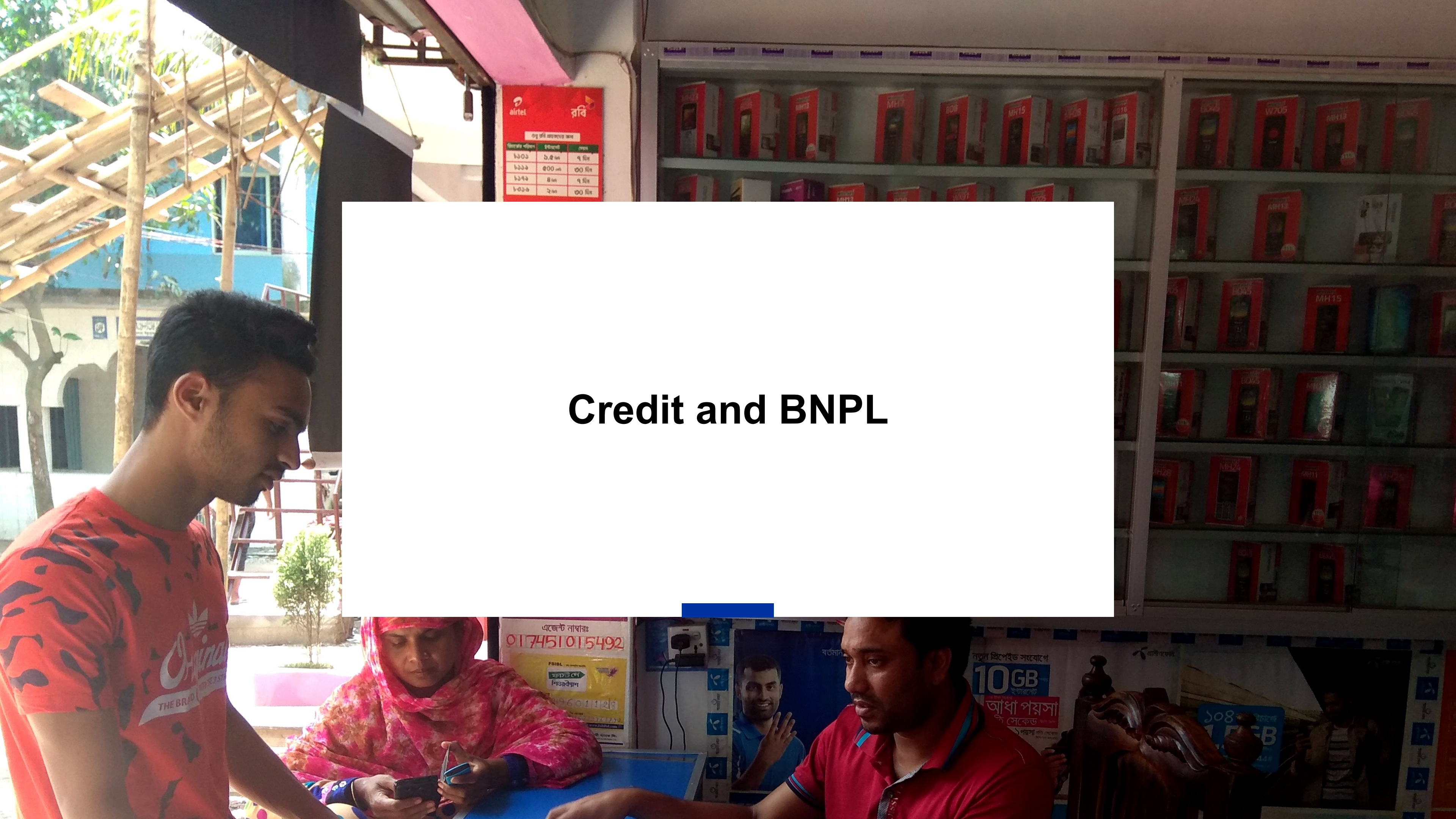
The information here only pertains to the social sellers surveyed who operate businesses through platforms.

Expenses breakdown

Common expenses	Stock	Digital marketing	Staff	Warehouse rent	Utility	Total
Percentage (monthly)	53	29	12	5	1	100

Most expenses are for procurement and digital marketing.

*MSC's deep-dive study insights



Credit and BNPL

Retailers prefer banks over MFIs and other sources despite limited access and awareness.

	Banks	MFIs	Informal sources (Samity)
Amount	USD 2,000 to USD 40,000	**Small loan:** USD 300 to USD 3,000 **SME loan:** USD 2,000 to USD 10,000	
Tenure	• **Term loan:** Two to five years • **CC loan:** One year, annually renewed	• **SME loan:** One to two years; 18 months, most preferred by MEs • **Smallholder loan:** One year	At max one year
Repayment	• **Term loan:** Monthly repayment, • **CC loan:** Quarterly interest payment, as per loan use.	• **Smallholder loan:** Weekly, biweekly, or monthly • **SME loan:** Monthly	Weekly, biweekly or seasonally
Cost	• **7% - 14% annually**	• **SME:** 20% for USD 10,000 or more; 22% for USD 5,000 or more; 24% for USD less than 5,000 • **Smallholder loan:** 24% declining	**1%-5% monthly**
Documentation and security	Trade license, TIN, tax token, rental deed, stock report, NID, among others	• **Small:** NID, peer group sign, and • **SME loan:** NID, land deed, trade license	**No documentation**

MFI loans are an accessible but costly option for retailers
Low-cost bank loan options are available for retailers, but they have limited awareness of loans and poor access to them

MFI loans are the most accessible loans in the market for retailers
Retail traders - CC loans’ terms are more flexible than term loans' terms in the banking channel

Retailers favor BNPL over any other form of credit; access hinges on multiple factors.

- Due to massive demand, wholesalers, FMCG companies, and digital platforms offer BNPL services to address retailers' working capital shortages. This enables stock purchases and better profit margins for MEs.
- The demand for BNPL is high, while availability and repayment tenures vary by product and provider.

Awareness of BNPL among MEs:

1. **Prevalence:**
   - BNPL is common in wholesale marketplaces known to retailers.
2. **Community of practices and knowledge sharing:**
   - Retailers consider BNPL from wholesalers essential to sustain operations.
   - Wholesalers directly offer BNPL to the retailers. MEs prefer working with wholesalers who have long-standing relations.

Barriers to access:

- Individual wholesalers hesitate to offer BNPL without a long-term business relationship. A new ME may not get the informal BNPL facility.

Retail traders prioritize BNPL as their most critical credit requirement.

	BNPL from Mokam	BNPL from the wholesalers	BNPL from FMCG companies
Product delivery	• 100% of the ordered products are delivered to the ME's doorstep. • No labor or transportation costs are added to the product price.	• MEs receive 100% of the order value in products upfront. • Essential goods, such as rice, lentils, onions, and garlic, are delivered directly to their outlets.	• 100% of the ordered products are delivered to the ME's doorstep. • No labor or transportation costs are added to the product price.
Repayment terms	The repayment tenure is seven days from the date of delivery.	• Flexible repayment based on weekly sales, no interest charged. • This system allows flexibility in repayment and factors the cost of credit into the goods' prices. • Full payment for most BNPL orders is typically made in the following week. • In some cases, 40–80% of the order value is repaid in the next week, with the remaining balance settled at the beginning of the following year.	• Generally, repayment happens in the next order delivery.
Cost implications	• **Chattogram:** A 1% charge is applied to the product price for using the BNPL facility. • **Mohakhali, Dhaka:** No additional charge.	• No explicit interest is charged for using the BNPL facility. • However, an additional cost is embedded in the product price. For example, products with a listed price of USD 145 are sold at USD 150 under BNPL.	• No additional charge

Transporters depend heavily on automobile companies for credit.

- Credit dependency is the highest among transporters in all three sectors. Most MEs buy vehicles directly from automotive companies at rates that range from 10% to more than 30%.
- Auto companies offer financing with strict clauses, which include fines for missed installments and vehicle repossession for consecutive defaults.
- While credit assessments are lax, veteran MEs believe stricter evaluations would benefit the industry overall.

Credit dynamics and sources of information:

- Awareness levels for banking products are low. The general perception is that banks do not cater to truck owners or drivers.
- The preferred channel for credit is through auto companies, even when the financing option is costlier. The credit sourced is mostly from banks.
- MEs do not interact directly with the bank. They pay a down payment to the auto company, and based on that payment, a rate is set. MEs pay the installment directly to the auto companies.
- MEs’ primary source of information is their respective truck stand.

Barriers to access:

- Key barriers to access formal loans include the lack of proper documentation, such as trade licenses, which limit eligibility.
- The terms and conditions for the credit options with auto companies are too strict for MEs.

Transporters exhibit specific credit usage patterns and have unmet demands

The first preference of credit source for transporters is auto-companies, followed by other FIs.

	Auto companies	MFIs
Amount	USD 8,000 to USD 14,000	• **SME loan:** USD 2,000 to USD 5,000 • Smallholder loan: USD 500 to 1,000
Tenure	Four to 10 years depending on the vehicle size	• **SME loan:** One to two years • Smallholder loan: One year
Repayment	• Monthly repayment • Ranges from **USD 160** to **USD 200** for small trucks and **USD 335** to **USD 2,800** for large trucks	• Monthly for SME loans • Weekly, biweekly, or monthly for smallholder loans • USD for 5,000 to 8,000 smallholder loans • USD 200 to USD 300 for SME loans
Cost	**8% - 14% annually**	• **24%** declining method
Documentation and security	NID, license, guarantor signatory, down payment of at least 10% and GPS tracking	• **SME loan:** NID, trade license, three blank leaves of cheque book, guarantor's NID and sign • **Small loan:** NID, group peer's signatures, guarantor sign (the loan is only accessible through women)

Digital platforms bridge social sellers with formal credit, which promotes growth through partnerships.

Awareness and preferences for credit options:

- Social sellers acknowledged the importance of loans to expand their businesses.
- MEs were well aware of bank loans and expressed interest to avail them. MEs also had a clear understanding of bank interest rates and terms.
- MEs showed a strong preference for bank loans.
- No MEs want to avail loans from MFIs due to their high-interest rates and trust issues. Yet, an ME unknowingly availed of a BRAC MFI loan through ShopUp's digital channel, which highlights a lack of transparency.

Role of BNPL:

- BNPL arrangements are crucial for business continuity, especially when MEs face challenges with unsold inventory.
- However, MEs lose negotiation power with the suppliers regarding the product quality, when they opt for no-cost BNPL as a favor.

Government loans with flexibility:

- **BSCIC:** Known for its flexible loan repayment policies, BSCIC does not penalize irregular payments. Instead, it encourages MEs to continue their businesses without additional pressure.
- **Youth development department:** Similarly, the Department of Youth Development provides phased loan disbursements but lacks widespread awareness among MEs.
- Despite these flexible terms, awareness of loans and their features from government institutions, such as BSCIC and the Department of Youth Development, remains minimal.

Social sellers have the highest awareness of financial products, even though they face the most barriers in terms of access.

	Banks	BSCIC (govt. Institution)	e-loan
Amount	Up to USD 1,500 to USD 40,000	Up to USD 5,000	From USD 250 to USD 5,000
Tenure	Two to three years	Up to two years	One to two years
Repayment	Monthly repayment	Monthly repayment	Monthly repayment
Cost	• **4% from the refinancing program** • 10% - 14% annually	• 4% for women (EIR 4.5% including tax) • 7% to 9% for men	24% declining
Documentation and security	• NID, license, guarantor signatory, **spouse's signature**, trade license	Land deed, utility bill copy, guarantor's sign (Govt. job holder), peer ME's NID and sign	NIDs, utility bill, copy, bank statement, all documents are to be submitted through e-mail

Diverse bank loan options empower social sellers with customized financial solutions
Female social sellers expect a comparatively lower interest rate
Social Sellers - MFI loans are accessible to microentrepreneurs through a digital credit channel in the partnership model
Social sellers - Interest rates are lower through government channels
Informal channels of credit cost very high for social sellers, but BNPL from suppliers has no cost

The role of digital platforms in facilitating credit

FIs can collaborate with platforms to reach MEs. (1/2)

1. Facilitate partnerships with financial institutions:

Collaborate with banks and MFIs:

- Banks and MFIs can partner with platforms to serve as lending partners. They can collect relevant ME data, such as personal details, operational expenses, product types, transaction history, profit and loss information, seasonality patterns, past credit history (which includes days past due), and other financial information, formatted to meet the institutions' assessment requirements.

Retail trade:

- Collect transaction records (purchase frequency, order volumes, inventory turnover) to help lenders assess working capital needs and financial health
- Track product type, seasonal sales trends, and profit margins to refine loan structuring and repayment schedules

Transport and logistics:

- Gather trip records (frequency, route distances, customer demand) and fleet operation costs to evaluate fleet financing needs
- Record operational expenses and revenue cycles to enable tailored vehicle loan or fleet expansion products

Social selling:

- Capture order fulfilment, payment timelines, and marketing spend to build small business credit profiles
- Track seasonal sales peaks to offer flexible BNPL options through suppliers

FIs can collaborate with platforms to reach MEs. (2/2)

Enable digital loan products:

- Design co-branded loan products partnering with platforms
- Pre-approve microloans through MFS based on transaction history and collect details from partner platforms

2. Enable credit risk mitigation:

- Collect on-demand sales and payment data from platforms to enhance credit risk assessment
- Partner with platforms to receive predictive analytics on repayment probability

3. Support loan repayments:

- Arrange flexible repayment terms aligned with ME cash flow cycles based on the MEs' sales data from platform

Platforms can help FIs simplify credit for MEs. (1/2)

1. Simplify documentation and KYC:

- Streamline borrower onboarding by integrating e-KYC with partner FIs to minimize paperwork, and ease the process for MEs who prefer to avoid formalities and the use of the English language
- Advocate for collateral-free or partially secured loans based on MEs' cash flow, business economics, and platform activities, this approach will help avail CC loans and term loans from the banks, or even MFI loans

2. Encourage MEs for formal credit access:

- Collaborate with FIs and encourage them to offer small initial loans and gradually increase limits based on repayment behavior
- Collaborate with lenders to offer reduced rates or faster approvals for MEs based on good credit scoring and repayment behavior

3. Offer BNPL across all places:

- Offer BNPL options to reduce MEs' upfront payment burden
- Facilitate deferred payments for inventory purchases by partnering with a group of suppliers with lender-backed models.

Platforms can help FIs simplify credit for MEs. (2/2)

4. Seamless credit access via the platform:

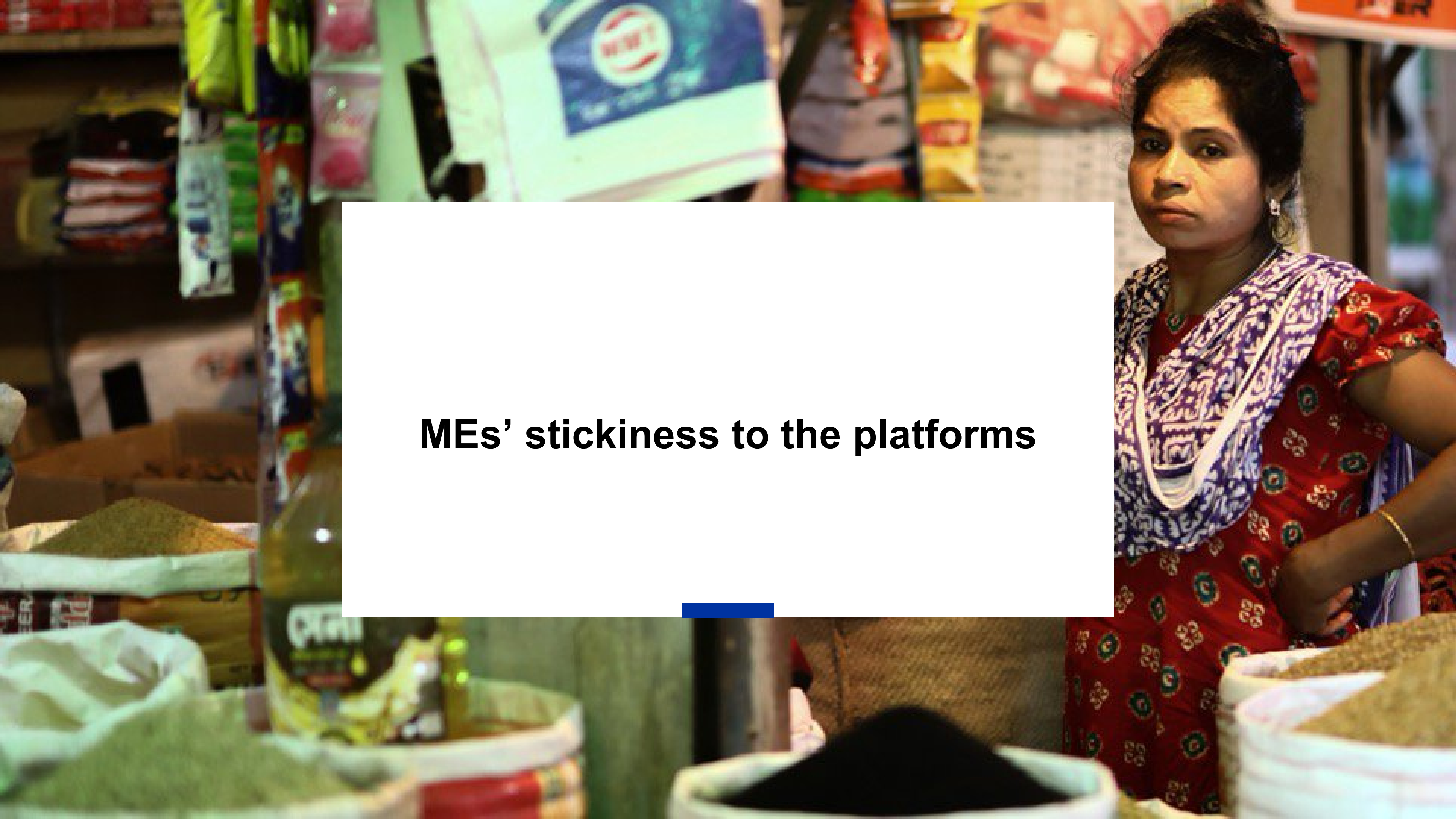
- Integrate a digital loan marketplace within the platform to allow MEs to explore, compare, and apply for loans from partner institutions

5. Support loan repayments:

- Set up an auto-debit system of repayments from the MFS wallet for MEs without a bank account to make BNPL payments

6. Build financial literacy:

- Use videos, infographics, and SR-led onboarding to educate MEs on the benefits of credit and responsible borrowing; raise awareness of credit products offered by financial institutions and government bodies, such as BSCIC and the Department of Youth Development



MEs’ stickiness to the platforms

Doorstep delivery plays a crucial role for the retailers to stick to the platform.

B2B platform for the retailers (Mokam):

- Continue to provide doorstep delivery without labor and transportation charges
- Maintain offline-based ordering services, as most MEs find app usage challenging; last year, Mokam operated without an ME-level app
- Ensure instant, on-demand delivery to replenish stock shortages
- Expand BNPL offerings to areas where they are currently unavailable; BNPL services are mandatory to run the businesses for retail traders in Bangladesh
- Arrange or help MEs get loans from the financial institutions, which the MEs would appreciate
- Deliver the goods at a rate lower than the current market price
- Digital inventory tools (for example, with Tally Khata) for stock tracking and smarter restocking

Return trips are the key factor for the transporters to remain on the digital platform.

Transport and logistics marketplace (Truck Lagbe):

- Facilitate return trips for MEs who travel outside their district to offset expenses and increase profitability; focus on business expansion beyond Dhaka and Chattogram to enhance this facility
- Restore the old bidding system without showing bidder positions, as the current system puts bidders at a disadvantage
- Implement phone call interactions for bidding to onboard more low-literacy MEs
- Provide more specific trip details in the app (exact locations, timings) to enhance operational efficiency for MEs
- Attain higher efficiency as the total bidding cycle time is lowered; MEs currently wait more than half a day just for bid confirmation
- Ensure higher stickiness if platforms keep their commission rates dynamic, lower in the off-season, and higher during the peak season

Social sellers want analytics and fair return policies from the digital platform. (1/3)

Female entrepreneurs' group (WE):

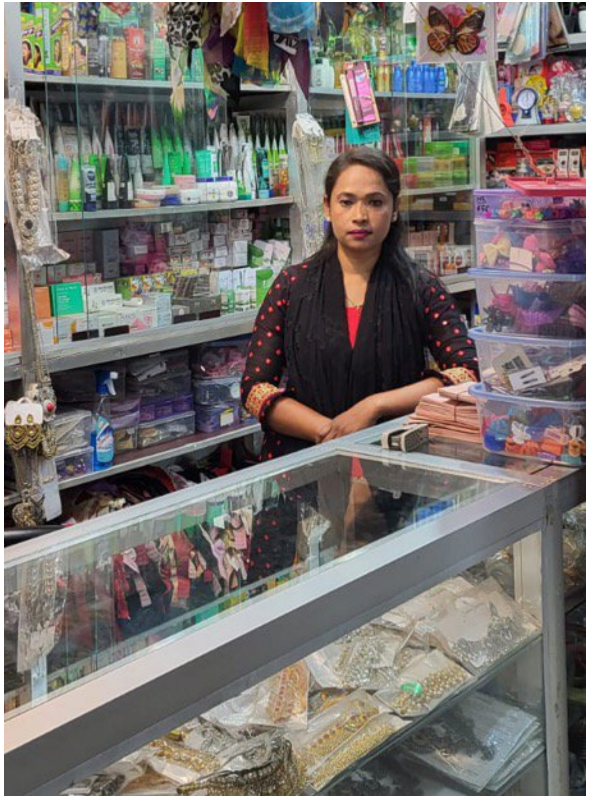
- Lower the annual subscription fee for the paid members
- Reduce the additional charge for members to attend training sessions and workshops

Social sellers who uses courier services (Pathao or RedX or Steadfast):

- Implement a live product tracking system similar to DHL or FedEx
- Regularly enhance services, which focuses on improving RedX's challenging UI
- Improve customer database management with features, such as auto-filling profiles, as seen in Pathao

Social sellers want analytics and fair return policies from the digital platform. (2/3)

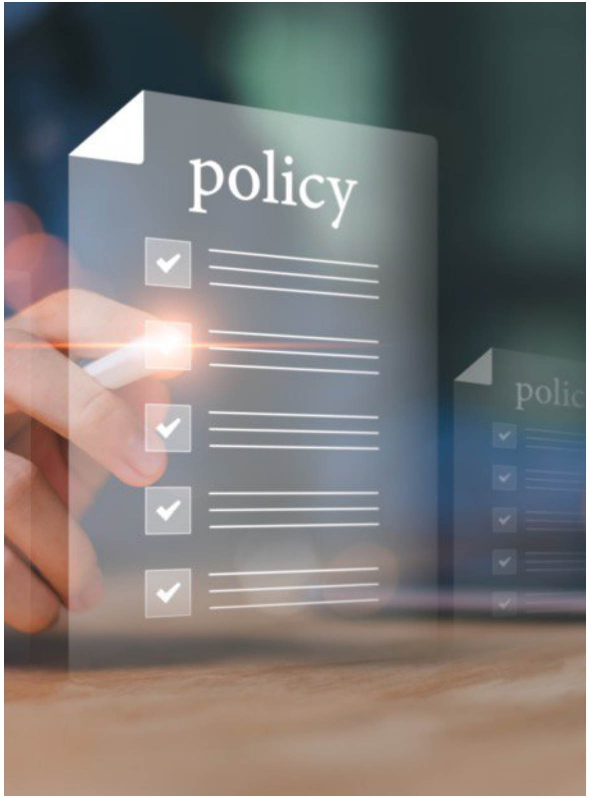
- Provide comprehensive business economics analytics on the dashboard for real-time insights
- Allow for on-demand sharing of business performance and transaction history with financial institutions
- Establish a protocol to contact customers multiple times before confirming a return, which ensures confirmation with the ME if the customer is unreachable; currently, RedX only contacts the customer once if they are not reachable
- Maintain offline service options for MEs who prefer not to use digital platforms, similar to Steadfast Courier's home pick-up and last-mile delivery service
- Introduce an OTP system for returns; if a customer is unavailable, the ME should provide an OTP for the return process; RedX lacks this feature



Social sellers want analytics and fair return policies from the digital platform. (3/3)

Social sellers (cloud kitchen):

- Implement a fair and hassle-free return policy on Foodpanda
- Continue to offer cost-effective sales-boosting features on customer homepages to increase ME sales
- Reduce the per-order commission rate from 30% to 15%
- Ensure adequate time for preparation to accommodate individual sellers
- Ensure courteous rider behavior to retain MEs and prevent churn
- Transition to app-based services instead of device-based systems; Foodpanda's current practice provides a device and charges USD 2.5 per month, which is inconvenient for MEs



Annex

MEs' wish list of loan products that are not available to them

Credit solution wish list from retailers: Seasonal boosts, stock needs, and business growth

Requirement of types of credit presently not offered

Loan type	Purpose	Loan amount	Interest rate	Loan tenure	Repayment mode
Seasonal loan	To meet increased sales demands during occasions by injecting additional investments	USD 2,000 to USD 3,000	Market rate	One to two months	Bullet payment
Working capital loan	To make payment on existing stock on credit and cover operational expenses	USD 2,000 to USD 3,000	Market rate	One year	Monthly installments
Stock financing	To purchase additional stock when there's a shortage of money, an alternative to BNPL	Minimum USD 1,000	Market rate	One month	Bullet payment
Business expansion loan	To expand existing businesses into wholesale by increasing stock levels (no new outlets)	More than USD 15,000	Market rate	Three or more years	Customizable instalments

Credit product wish list from transporters demonstrates the need for use cases of credit.

Requirement of types of credit presently not offered

Loan type	Description	Purpose/benefit
Business expansion loan	Loan to purchase new trucks to expand the business	Enables scaling operations and increasing revenue potential through business growth
Digital loan	Instant access to small amounts of credit for operational expenses	Covers costs, such as trip charges to platforms and vehicle maintenance or repairs, which ensure uninterrupted operations
Emergency balance requirement	Fixed credit amount provided by the platform (for example, USD 2) for urgent needs, such as to pay platform charges when funds are unavailable	Ensures continued access to platform services even in cash shortages; borrowers desire a higher emergency balance limit for better support during critical times
Instant small Loans from providers	On-demand, instant small loans to cover emergency balances or other urgent payments	Facilitates timely repayments of emergency balances, which prevents blocked accounts and maintains access to essential services
Flexible installment loans	Loan with adjustable repayment terms based on cash flow availability	Provides flexibility during low-income periods (for example, fewer trips), which ensures financial stability and prevents additional strain during crisis moments

Credit product wish list from social sellers demonstrates the need for use cases of credit. (1/2)

Loan type	Preferred tenure	Expected interest rate/charge	Additional remarks on the credit
Stock financing	Minimum three years to maximum of one year	3% to 4%	• This credit is needed when investment is stuck for product remain unsold • Most important loan for MEs' survival in the business • They also need the loan for: o Page boosting o Stall participation fee o Skill development
Women entrepreneur loan	Five years (currently limited to three years)	Maximum 8%	Treated as a regular SME loan
Short-term working capital Loan (seasonality)	Three to six months	4%	Tailored for seasonal business needs

Credit product wish list from social sellers demonstrates the need for use cases of credit. (2/2)

Loan type	Preferred tenure	Expected interest rate/charge	Additional remarks on the credit
BNPL from suppliers	Seven days to 1.5 months	Flat charge of not more than USD 2 for per USD 100 stock purchase	• Some MEs have the need for the BNPL only for a seven-day end-to-end products delivery cycle*. When the payment is cleared from the customer, ME can return the money to the customer. • 1.5 months tenure is to cater to seasonality mostly
BNPL from platforms		No charge	BNPL as value added service
Instant digital credit	Five to seven days	Not more than 4%	• Instant application • Instant disbursement of small amount
Loan to purchase fixed business assets (machineries)	Two to three years	Market rate	To upscale the production capacity

Microentrepreneurs' awareness of credit in detail

Low-cost bank loan options are available for retailers, but they have limited awareness of loans and poor access to them. (1/2)

- Half the surveyed microenterprises have access to bank loans, which are small and medium enterprise (SME) loans. Microenterprises are aware of these SME loans.
- However, all MEs are aware of bank loans, especially the two kinds of SME loans, term loans, and cash credit (CC) or working capital loans.

Awareness of bank loans among retailers:

1. **General awareness:**
    - Bank loans are perceived to have the lowest interest rate among other credit channels in the market.
    - Term loans are perceived as business expansion rather than working capital loans. Business expansion includes the transition from retail trader to wholesaler.
    - CC loans are perceived as working capital to meet the demand for regular stock-selling and cater to seasonal sales.
    - CC loan is the most useful and desired loan for retailers.
2. **Sources of information:**
    - **Peer networks:** Many microenterprises learn about SME loans through discussions with others who have availed of such loans.

Go back

Low-cost bank loan options are available for retailers, but they have limited awareness of loans and poor access to them. (2/2)

Barriers to access:

- Limited understanding of financial products does not allow microenterprises to explore bank loans.
- Negative perceptions of bureaucracy and stringent terms discourage inquiries.
- Banks and lenders often do not actively target microentrepreneurs.
- Retailers often rely on informal credit channels, such as samitis, friends, and families, and informal lenders, such as Mohajons, due to ease and lack of formalities.

MFI loans are an accessible but costly option for retailers. (1/2)

- Retailers who experience MFI loans mostly develop the desire to avail of bank loans.
- MFIs do not go for the CC loan because of operational difficulties.

Awareness of MFI loans among microentrepreneurs:

1. **General awareness:**
    - Microenterprises are familiar with MFI loans.
    - MFI loans are considered accessible due to their proximity and minimal documentation requirements.
    - These loans are mostly for small-scale financing rather than significant business expansion. Although MFIs have the features of the SME loan, the amount in the SME loan provided by the MFIs is lower than those of banks.
    - MFI SME loans are generally used for business expansion.
2. **Sources of awareness:**

    Community networks:
    - Peer-to-peer sharing drives awareness. Many microentrepreneurs learn about loans through neighbors or other business owners.

    Field agents:
    - MFI loan officers and agents educate microentrepreneurs about loan features and processes.

Go back

MFI loans are an accessible but costly option for retailers. (2/2)

Barriers to access:

1. **The stigma around MFIs:**
   - Negative experiences, such as frequent repayment reminders and insulting behavior from the loan officer upon slight repayment delay, create a stigma around MFI loans.
2. **Limited product customization:**
   - Many microentrepreneurs feel MFI loans are not customized to their specific business needs, such as working capital for seasonal demands.
3. **High interest rates:**
   - Microentrepreneurs are deterred by the perception that MFI loans are costlier than other credit options.

Go back

Transporters exhibit specific credit usage patterns and have unmet demands.

Terms and conditions for the credit options with automobile companies are too strict and predatory for microentrepreneurs.

- **Fines and penalties:** Delayed installment payments attract a 1% penalty on the total amount. If one monthly payment is missed, then it has to be paid in full the next month along with that month's payment and additional fines.
- **Vehicle confiscation:** If the microentrepreneur fails to pay three installments non-consecutively, the vehicle is confiscated.

Access to credit is limited to purchasing reconditioned vehicles. The offered credit options come with stringent terms and conditions. Microentrepreneurs require financing support in other aspects as well.

- **Vehicle maintenance:** Credit is needed for major vehicle maintenance, such as engine downhaul, suspension work, or for minor works, such as a new set of tires and windscreens.
- **BNPL service:** Trucking microenterprises do not get much BNPL facilities. Microentrepreneurs may only get parts and services on credit if they have a longstanding relationship with the vehicle maintenance shops.

Go back

Female social sellers expect a comparatively lower interest rate.

Expectation of female microentrepreneurs from FSPs:

- Female microentrepreneurs expect the loan approval and disbursement process to take no more than 15 days, significantly shorter than the current average timeline of 1.5 months. Delays in the loan process make the loan's objective invalid.
- While timely repayments reduce the overall loan cost due to the declining interest rate method, female microentrepreneurs expect banks to adjust the final installment to reflect the reduced interest. Female microentrepreneurs perceive payment of the same amount in the last installment as unjustified. They believe the final installment should be lower to ensure accurate calculations.
- Female microentrepreneurs feel the interest rate should remain between 4% to 7%.

The reason for the variation in the interest rate:

- The interest rate varies as per the age of the business.
- If a microentrepreneur has received the loan elsewhere, then the bank will have to observe the repayment behavior. Good repayment behavior will be considered to receive a loan with less interest, and vice versa.
- The riskier the business, the higher the interest rate.
  - Risky businesses involve those, such as food businesses and perishable products businesses.
  - Less risky businesses involve those, such as clothing businesses, first-class construction contractors, physiotherapy businesses, and parlors, among others.

Go back

Detailed credit terms from different financial institutions

Retail traders - CC loans' terms are more flexible than term loans' terms in the banking channel. (1/2)

	Term loan	CC loan
Structure	Fixed term	Revolving credit with a pre-approved limit
Tenure	Two to five years	One year, renewable annually
Repayment	Monthly installments, regardless of loan use	Principal and accrued interest settled upon loan closure
Amount	USD 3,000 to USD 40,000	USD 2,000 to USD 20,000
Approval	-	Typically lower than the borrower's requested amount
Interest charging system	-	• Charged quarterly on withdrawn amounts, calculated daily • No interest if withdrawn and repaid the same day

Common features of SME loans

Go back

Retail traders - CC loans’ terms are more flexible than term loans' terms in the banking channel. (2/2)

- **Purpose:** Business only
- **Interest rate:** 14% annually
- **Processing time:** 15 days to two months
- **Security:**
  - **Primary:** 2x stock value
  - **Secondary:** Mortgage as collateral
- **Documentation:** Trade license, TIN, tax token, rental deed, stock report, receivables or payables list, product list, blank cheques, 6-month bank statements, NID, the guarantor's NID

MFI loans are the most accessible loans in the market for retailers.

MFI loan features that the retailers have access to

	Small loan	SME loan
Tenure	One year	One to two years; 18 months is common
Repayment	Weekly, biweekly, or monthly; depends on the MFI and region	Monthly
Amount	USD 300 to USD 3,000	USD 2,000 to USD 10,00,000
Borrowers	Women; microentrepreneurs who avail loans through their female family members	Micro, small, and medium entrepreneurs
Type	Group lending	Individual lending
Interest rate	24%	• 20% for USD 10,000 or more • 22% for USD 5,000 or more • 24% for USD less than 5,000
Purpose of the loan	Build houses or buy land	Business

Go back

Social Sellers - MFI loans are accessible to microentrepreneurs through a digital credit channel in the partnership model. (1/2)

	E-loan
Loan facilitator	ShopUp
Loan provider	BRAC MFI
Interest rate	24%, declining method
Tenure	One to two years
Loan amount	• From USD 250 to USD 5,000 • Loan provider will decide on the amount
Repayment schedule	Monthly
Platform	ShopUp's e-loan platform app

Go back

Social Sellers - MFI loans are accessible to microentrepreneurs through a digital credit channel in the partnership model. (2/2)

	E-loan
Eligibility and associated activities	• Need to have an f-commerce business, but offline businesses could also avail the loan • Minimum business age of six months; currently running business • After verification, the loan team will call to confirm authenticity • Office visit for agreement sign-up
Loan documents	• Copy of the NID card for both the borrower and the nominee with passport size picture • Copy of the utility bill • Bank statement • All documents to be submitted through email

Go back

Diverse bank loan options empower social sellers with customized financial solutions. (1/2)

	Personal loan	Lien loan	Subsidized term loan	Term loan
Tenure	One to three years	Follows the associated fixed deposit tenure	Up to two years	• Similar to retail traders' term loan • Loan amount up-to USD 40,000 • Installment USD 19,000 per month
Repayment	Monthly	Monthly	Monthly	
Amount	USD 1,500 to USD 3,000	Up to 95% of the fixed deposit	Up to USD 3,000	
Installment	USD 110 to USD 170	Depending on the loan amount		
Interest rate	10%	2% to 3% more than fixed deposit rate	4% (EIR 4.5% after tax)	
Purpose	Personal; but some use for their business purposes as well	• Personal • People avail a lien loan because they do not want to close or withdraw a fixed deposit. If they avail the deposit, it can lead to unnecessary expenditure. Any loan is bound to be spent for a specific reason.	Business	
Condition	Varies on banks	Must have a fixed deposit in the same bank	-	

Go back

Diverse bank loan options empower social sellers with customized financial solutions. (2/2)

	Personal loan	Lien loan	Subsidized term loan	Term loan
Platform's engagement	N/A	N/A	• WE facilitates the loan from Bank Asia. • Other banks also provide the loan.	The loan was approved based on the transaction statement provided by Pathao at the bank's request.
Subsidy	N/A	N/A	Bangladesh Bank from Small Entrepreneur's Refinancing Scheme fund	
Category	Personal	-	SME loan	SME loan

Go back

Informal channels of credit cost very high for social sellers, but BNPL from suppliers has no cost. (1/2)

	Mohajoni loan or hand loan	BNPL from suppliers
Upfront payment requirement	None	Generally 50% of the total order
Amount	Mostly depends on the relationship with the suppliers	Depends on the needs of the microentrepreneur and the relationship with the supplier
Interest calculation	Monthly	Not applicable
Interest rate	**Regular time:** ○ 2% to 3% monthly **During peak season:** ○ Up to 5% monthly	No interest rate or additional charge
Link for the loan	Mostly through the suppliers	

Go back

Informal channels of credit cost very high for social sellers, but BNPL from suppliers has no cost. (2/2)

	Mohajoni loan or hand loan	BNPL from suppliers
Repayment system	• Monthly installment, only interest payment • When settling: Interest payment and principal amount is paid	Depends on the supplier and the microentrepreneur's relationship
Collaterals	No collaterals	No collaterals, based on the relationship with the supplier

Social sellers - Interest rates are lower through government channels.

The practice and feature of the loan from government institutions which the MEs have access to

	The Bangladesh Small and Cottage Industries Corporation (BSCIC)	The Department of Youth Development
Amount	Up to USD 5,000	• Depending on the need, ability to pay, peer suggestion, verification from an officer
Interest rate	• 4% for women • 7% to 9% for men	10%
Tenure	Up to two years	Not mentioned
Repayment	Monthly	Weekly

Go back

Social sellers - Interest rates are lower through government channels.

The practice and feature of the loan from government institutions which the MEs have access to

	The Bangladesh Small and Cottage Industries Corporation (BSCIC)	The Department of Youth Development
Documentation	• Land deed as collateral, utility bill copy, guarantor's sign (government job holder), peer entrepreneur's NID, and sign	• Initial loan: Disbursed in three **steps of USD 100, USD 150, and USD 200.** • The initial loan is verified by the peer group, which consists of five trusted members. Eight **to 10 groups are in a center**, which is the location for the primary loan disbursement. • Upon successful repayment of the three-step payment, only five people are chosen out of around **50 people** for the next loan, which is the enterprise loan. • Only those people who receive training from them have livestock, fish, poultry, or dairy, and have a physical business can receive the loan from them.
Tools for verification	• Have physical store or visible business • Good reputation • Good page in case of social sellers	
Subsidized by	Bangladesh Bank from Small Entrepreneur's Refinancing Scheme Fund	UN agencies (could not be verified)

Go back

Case studies

Case study: How Mr. Anwar used his mortgage effectively to convert a CC loan into a term loan. (1/2)

Mr. Anwar successfully converted his CC loan into a term loan with a significantly higher amount by using his mortgage value effectively. Below is the summary of the process:

Parameter	CC loan	Term loan
Loan type	Cash Credit (CC) loan	SME term loan
Mortgage value (land)	USD 26,000	USD 45,000
Existing loan amount	USD 10,000	N/A
Loan utilization	Fully utilized	N/A
Desired loan amount from existing Rupali Bank	N/A	USD 40,000
Approved increment range by Rupali Bank	N/A	Maximum USD 20,000

Case study: How Mr. Anwar used his mortgage effectively to convert a CC loan into a term loan. (2/2)

Parameter	CC loan	Term loan
Strategy for higher loan	Mortgage shown to another bank to meet demand	
Purpose of loan usage	House expansion (to generate rental income) and business investment **to become wholesaler** (to generate profits)	
Received loan from another bank	N/A	USD 40,000

- **Mortgage valuation increase**: Anwar's land's value increased over time from USD 26,000 to USD 45,000, which enhanced his capacity to borrow.
- **Bank's increment limit**: Rupali Bank hesitated to approve a jump from USD 10,000 to USD 40,000 due to internal lending policies.
- **Alternative strategy**: Anwar approached another bank with the updated mortgage value to secure a higher loan amount.
- **Utilization of funds**:
  - A portion of the loan will be used to expand his house to generate rental income.
  - He will invest the rest of the amount in his business to yield sustained profits.
- **Outcome**: Anwar used his assets effectively and transitioned from a CC loan to a term loan with significantly increased funds. This enabled personal and business growth.

Case study: How a social seller used financial documents and DFS to grow his business.

A social seller used digital loans and strategic loan approvals to secure progressively larger loans from traditional banks. Below is the summarized progression:

Year	Loan provider	Loan amount	Approval technique
2019	ShopUp (e-loan)	USD 4,000	Auto-approval and auto-disbursement based on digital data
2024	Standard Chartered Bank	USD 15,000	Used ShopUp e-loan documents as credibility proof; yet did not receive it ultimately
2024	Eastern Bank	USD 40,000	Showed SCB loan approval to negotiate a higher loan amount

- **Digital loan as a starting point**: The entrepreneur began to expand his business with a small digital loan from ShopUp,.
- **Built financial credibility**: The loan documents from ShopUp served as proof of financial reliability, which enabled him to secure a larger loan from Standard Chartered Bank (SCB).
- **Strategic use of offers**: He used SCB's loan offer to negotiate a higher loan amount with Eastern Bank PLC. This highlights the importance of competitive loan positioning.
- **Progressive loan scaling:** The microentrepreneur's ability to scale from USD 4,000 to USD 40,000 demonstrates how they can make progress through competitive loans.
- **Impact of DFS**: This journey also underlines how digital financial service (DFS) platforms like ShopUp can bridge the gap between informal sellers and formal financial systems.

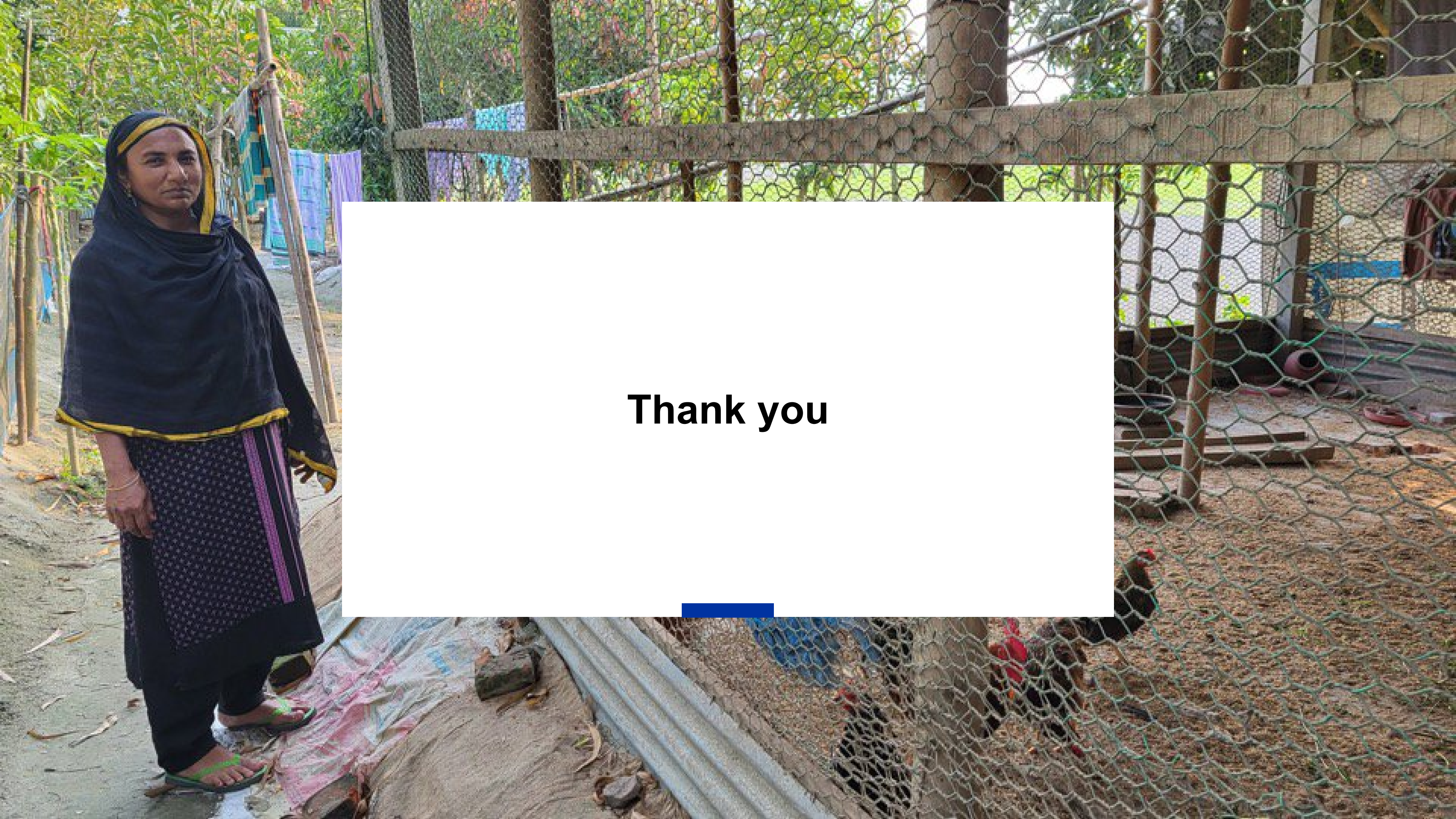
Case study: How a retailer effectively utilized BNPL to expand his business. (1/2)

Aspect	Without BNPL (USD 300)	With BNPL (USD 1,000 from platform and USD 300 as the other stock source)	Impact of BNPL
Investment source	USD 300	USD 300 (own) and USD 1,000 (BNPL)	Expanded purchasing power
Total stock value	USD 300	USD 1,300 (USD 300 stock from informal wholesalers and USD 1,000 from BNPL)	Higher stock availability
COGS	USD 300	USD 1,310 (which included BNPL fee of USD 10)	Diversified product range
Wholesale profit *(80%)	USD 4.80 (2%)	USD 20.96 (2%)	Enhanced profitability
Retail profit *(20%)	USD 6 (10%)	USD 26.2 (10%)	Higher retail margins
BNPL cost (1%)	-	USD 10	Minimal expense
Net profit	USD 11.6	USD 37.16	Significant profit growth
Extra profit from BNPL		+ USD 25.56	Substantial financial gain

* % of total sale

Case study: How a retailer effectively utilized BNPL to expand his business. (2/2)

- **Cash diversification:** The microentrepreneur used his USD 300 to purchase stock from informal wholesalers. He also used USD 1,000 BNPL from Mokam to expand his stock base and maintain liquidity.
- **Profit amplification:** He strategically used BNPL to generate a profit of USD 37.16. This increased his profits by 220.34% compared to when he relied solely on his cash of USD 11.6.
- **Cost-effective scaling:** The 1% BNPL fee or USD 10 was a minor expense compared to the significant increase in revenue and profits from a larger inventory.
- **Inventory optimization:** He sourced his credit from dual sources. He stocked credit through both informal wholesalers and the platform. This approach helped him diversify product offerings and attract a broader customer base.



Thank you