

Bangladesh University of Professionals



An Internship Report on

“PKSF’s Credit Enhancement Scheme (CES) as a Financial Innovation in Bangladesh”

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***PKSF's Credit Enhancement Scheme (CES) as a Financial
Innovation in Bangladesh.***

Letter of Transmittal

08 December, 2025

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Subject: Letter of Transmittal

Dear Mam,

With due respect, I am pleased to submit my internship report titled “PKSF’s Credit Enhancement Scheme (CES) as a Financial Innovation in Bangladesh” as part of the requirements for the Bachelor of Business Administration (General) program at Bangladesh University of Professionals. The report has been prepared based on my experience during the twelve-week internship period, and I have made every effort to reflect the learning and exposure I gained throughout this time. I sincerely appreciate your guidance and support during the preparation of this report and respectfully submit it for your kind evaluation.

Yours sincerely,

MD. Shariar Hossain Rupak

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Department of Business Administration – General

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Statement of Authorship

I, Md. Shariar Hossain Rupak, hereby declares that this internship report titled “PKSF’s Credit Enhancement Scheme (CES) in as a Financial Solution in Bangladesh” has been prepared based on my own work, knowledge, and experiences gathered during my internship at Palli Karma-Sahayak Foundation (PKSF).

I further affirm that this report has not been submitted, in part or in full, to any other institution for academic or professional purposes. All sources of information used in this report have been duly acknowledged.



Md. Shariar Hossain Rupak

Date: 08 December ,2025

Acknowledgement

First and foremost, I would like to express my heartfelt gratitude to the Almighty Allah for granting me the strength, patience, and opportunity to successfully complete my internship and this report.

I am deeply thankful to my organizational supervisor, Dr. Mesbhauddin Ahmed, Assistant General Manager & Project Coordinator MFCE Project at Palli Karma-Sahayak Foundation (PKSF) for his constant guidance, valuable feedback, and encouragement throughout my internship at PKSF. My sincere appreciation also goes to the entire team of the Microfinance Credit Enhancement (MFCE) Project for their cooperation and for providing me with the necessary resources and insights to make this work possible.

I also wish to extend my gratitude to my academic supervisor, Tahmina Akter, Lecturer, Department of Business Administration-General, BUP, whose constructive suggestions and support guided me in preparing this report in line with academic standards.

Finally, I am grateful to my family, friends, and peers for their continuous support and encouragement throughout this journey.

Executive Summary

In this internship report, I will be discussing the innovative approach of the Credit Enhancement Scheme (CES) of Palli Karma-Sahayak Foundation (PKSF) in terms of its operations in the credit scene of Bangladesh. The paper places the PKSF model in a global perspective by taking a momentary comparison with the most established models of credit guarantees like KOTEC (Korea), FOGAPE (Chile), CGTMSE (India) and the likes in Thailand, Cambodia and Malaysia in an effort to comprehend global standards and applicability.

The report identifies CES as a risk-sharing approach that enhances the lending of Partner Organizations (POs) and inclusive and sustainable microenterprise finance. The study is based on secondary data and a self-conducted qualitative comparative assessment which ensures the depth, validity and contextual accuracy of the study, the study measures the main indicators, such as the rate of guarantee coverage, the structure of governance, the extent to which a scheme reaches a borrower, and the general design of the scheme to measure the effectiveness of CES.

List Of Acronyms

Acronym	Full Form
ADB	Asian Development Bank
CES	Credit Enhancement Scheme
CGF	Credit Guarantee Fund
ESG	Enviornmental,Social,Governence
CGC	Credit Guarantee Corporation
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises (India)
FOGAPE	Fondo de Garantía para Pequeños Empresarios (Chile)
KOTEC	Korea Technology Finance Corporation
SJPP	Syarikat Jaminan Pembiayaan Perniagaan Berhad (Malaysia)
TCG	Thailand Credit Guarantee
MFCE	Microenterprise Financing and Credit Enhancement
MDP	Microenterprise Development Project
MSME	Micro, Small and Medium Enterprise
PKSF	Palli Karma-Sahayak Foundation
PO	Partner Organization
PPP	Public–Private Partnership
FC	Finance Company

DFID	Department For International Development
KGF	Kuwait Good-will Fund
OECD	Organization for Economic Co-operation and development
IFC	International Finance Corporation
UNCDF	United Nations Capital Development Fund

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Chapter 1: Introduction

1.1 Background

Palli Karma-Sahayak Foundation (PKSF) is one of the leading apex development finance institution that was set up by the Government of Bangladesh in 1990 to alleviate poverty by financing and capacity building of the grassroots organizations and communities. With time, PKSF has broadened responsibilities which include microenterprise, climate resilience, microenterprise, housing, and ensuring innovation.

Inclusive growth highly depends on the microenterprise sector in Bangladesh. With microenterprises forming about 89 percent of about 8 million businesses, there is a recognized financing gap, which is addressed by the Microenterprise Financing and Credit Enhancement Project (*MFCE Project*) by ADB in cooperation with PKSF with the goal of making better use of bank financing to boost access to microenterprise finance, which it may generate about 56 percent of the jobs in the private sector.

Under this project, USD 180 million will be issued as a credit line, USD 20 million in the form of the CGF and USD 1 million in technical assistance. PKSF through the guarantee component will partly cover the commercial bank lenders against default by the POs in order to encourage the banks to fund microenterprise credit programs.

PKSF has in the recent past also initiated a Credit Enhancement Scheme (CES) which is the first official guarantee risk-sharing scheme in the country to engage the commercial banks in the microfinance business. In CES, PKSF will ensure the risk of bank loans borrowed by POs and transferred to the grassroots entrepreneurs. Under a scheme that PKSF will support loans borrowed by MFIs through banks, a reserve fund of Tk 240 crore will be employed and a commission of 0.5% of the amount of the loan will be charged at once.

PKSF entered into contracts with five commercial banks namely BRAC Bank, city bank, mutually trust Bank, prime bank and southeast bank as well as one finance company, the UAE- Bangladesh Investment Company (UBICO) Limited. The respective Managing Directors and CEOs were present at the signing of the venture as a strategic partnership to increase credit access under the Credit Enhancement Scheme (CES).

1.2 Objective of the Study

The objective of this study is to undertake a comprehensive exploration of how credit enhancement through guarantee mechanisms an instrument widely recognized for its capacity to reduce lender risk and catalyze enterprise growth across global markets can be effectively contextualized and adapted within Bangladesh's microenterprise financing landscape, particularly through the Microfinance Credit Enhancement (MFCE) and related frameworks implemented by PKSF.

More specifically, the report seeks:

- To compare a diverse range of international credit guarantee schemes
- To map the strategic alignment of PKSf's MFCE and CES initiatives with globally adopted practices.

1.3 Global Context and Rationale For CES

The application of credit enhancement mechanisms has become a powerful tool of bridging the centuries-long disaggregation of formal financial institutions and the poorly served micro, small, and medium enterprises (MSMEs) in the paradigm of the modern system of development finance. Credit Enhancement Scheme (CES) under PKSf Microenterprise Financing and Credit Enhancement (MFCE) Project is a special scheme of financial intervention based on the approach of de-risk lending, credit flow promotion, and inclusive growth in Bangladesh MSME ecosystem. The coverage of part of the credit risk by guaranteeing has enabled PKSf to create an enabling environment wherein the banks and other financial institutions have been in a position to advance financing to previously locked down enterprises on either a limited collateral basis or on the basis of perceived risk.

There are examples of successful credit guarantee systems throughout the world. For example:

KOTEC (Korea Technology Finance Corporation) is using technology based credit guarantee to encourage innovation based SMEs. Partial guarantees are offered by FOGAPE (Chile) to assist the SMEs in obtaining working capital in times of recession. These models are in line with the CES of PKSf since all these models work to eliminate the asymmetry of risk and increase the availability of formal credit markets.

Chapter 2: Overview of the Organization

2.1 Brief History of PKSf

Palli Karma-Sahayak Foundation (PKSF) is a specialized finance institution in Bangladesh that focuses on sustainable reduction through inclusive financing and development projects. PKSf, which was founded by the Government of Bangladesh in 1990, is a wholesale financing and development institution, whose financial and technical services are offered to a broad network of partner organizations (POs) throughout the country, which in turn, deliver microcredit, enterprise loans and non-financial services to millions of households at low income and micro-entrepreneurs.

Having a mission of enhancing human-based and sustainable economic growth, PKSf incorporates financial service with social protection, capacity development, environmental conservation, and institutional strengthening. It is a special sort of hybrid institution that combines financial innovativeness and social development and establishes a global standard of inclusive development patterns.

PKSF was initially capitalized through government funds and gradually diversified its financing base through partnerships with international development partners such as the World Bank, IFAD, ADB, DFID, KGF, and the European Union.

Over the decades, PKSf evolved from a traditional microcredit wholesaler into a multidimensional development finance institution. Its focused areas expanded to include:

- Sustainable Microenterprise and Resilient Transformation (SMART)
- Extended Community Climate Change Project-Drought (ECCCP-Drought)
- Recovery and Advancement of Informal Sector Employment (RAISE)
- Resilient Homestead and Livelihood Support to the Vulnerable Coastal People of Bangladesh (RHL) Project

Currently, PKSF supports over 200 partner organizations. As of 2025, the aggregated number of members organized through all the Partner Organizations of PKSF stands at 20.0 million, 92.0% of whom are women. At the same time, the number of borrowers is 15.20 million. of them, 14.10 million are women (92.76%).

2.3 Strategic Policy Metrics of the Organization

Their policies are in force and directed at PKSF, based on the principles of transparency, sustainability and inclusiveness. The company has its philosophy rooted in the economic efficacy and social fairness and the moderate method of financing development can be traced.

Key policy focused areas include:

- Financial Inclusion Expansion: Strengthening access to finance for micro and small enterprises through innovative instruments such as Credit Enhancement Schemes (CES) and blended finance mechanisms.
- Risk Sharing with Financial Institutions: Partnering with Banks and Financial Institutions (Banks/FCs) to reduce credit risk and encourage increased lending to micro-enterprises.
- Institutional Capacity Building: Enhancing the operational, financial, and governance capacity of Partner Organizations (POs) through appraisal, monitoring, and technical support.
- Sustainable and Impact-Oriented Financing: Integrating sustainability, climate resilience, and inclusive growth objectives into microenterprise and credit guarantee programs.
- Strong Governance and Oversight: Ensuring transparency and accountability through structured approval mechanisms, independent evaluation committees, and continuous performance monitoring.
- Human Resource Development: Investing in skilled manpower through competitive recruitment and continuous professional training to maintain institutional excellence.

- Partnership-Driven Development: Leveraging collaborations with multilateral and bilateral development partners to scale up development finance initiatives

These policy metrics collectively make PKSf a model institution for sustainable and socially responsible finance in developing economies.

2.4 Institutional Positioning

PKSF operates in a unique public nonprofit domain, which acts as the parent institution for all of those partner organizations throughout the country. PKSf however, stands out because of:

Apex microfinance institution: PKSf is one of the largest wholesale finance institutions of Bangladesh that distributes the funds sent to the Partner Organizations (POs) including the NGOs and MFIs which in turn make most people who are in need access the microfinance and contains an added advantage that it does not lend the funds itself to the people in need.

Catalyst to Inclusive Development: Become a central player in poverty alleviation, women empowerment, youth inclusion and microenterprise building to become climate resilient, ensure its operations are in line with national development agenda and Sustainable Development Goals (SDGs).

Policy and Governance Authority: offers operational, financial and technical advice to POs, sets standards in lending practices, risk management, environmental and social protection, gender inclusion and transparency which helps in the establishment of institutional and programmatic integrity.

Innovator, Financial Intermediary: A substitute to the commercial banks, donor agencies and micro-entrepreneurs using novel tools like the Credit Enhancement Scheme (CES) and reduces the risks of credit, and access to finance, by the under-served markets.

Capacity Builder and Technical Partner: Empowers POs: Trains, digital solutions, monitoring and advisory services, professionalizes, improves operations performance and decision-making on the basis of data in microfinance and development programs.

Strategic Development Partner: operates in collaboration with the government, the private sector donors and banks in the country that positions itself as a trusted middleman that moderates the economic effect and financial viability that leads to the inclusion and sustainable economic development in Bangladesh.

2.5 Organizational Structure

2.5.1 Overview

PKSF maintains an efficient and highly skilled management system in alignment with its mission and vision. The organization follows a rigorous, competitive recruitment process to ensure that only competent personnel are selected. Employee capacity is continuously enhanced through periodic in-service training programs offered both domestically and internationally.

The Managing Director serves as the Chief Executive Officer of PKSF and is supported by five Deputy Managing Directors (DMDs), each responsible for supervising specific operational units as well as major programs and projects. The Senior General Manager heading the Audit Unit oversees internal, external, and special audits and reports directly to the Managing Director.

PKSF’s core microfinance interventions—Jagoron, Agrosor, Buniad, and Sufolon—are monitored through eight dedicated panels, each supervised by a Panel Supervisor responsible for approximately 25 Partner Organizations (POs). These panels operate under the direct supervision of four DMDs and function as the primary liaison between PKSF and its POs.

Various development projects funded by bilateral and multilateral partners are managed through the Project Management Unit (PMU). The Project Coordinator (PC), as head of the PMU, is responsible for project implementation and reporting to the relevant DMD while maintaining communication with government bodies and development partners on behalf of PKSF.

2.5.2 Organizational structure of PKSF

PKSF is located at: “E-4/B, Agargaon Administrative Area, Sher-E-Bangla Nagar, Dhaka-1207, Bangladesh.”As on 05 November 2025 , PKSF management team consists of 435 staff, which includes 231 regular officers. Work Arrangement of PKSF is as followed:

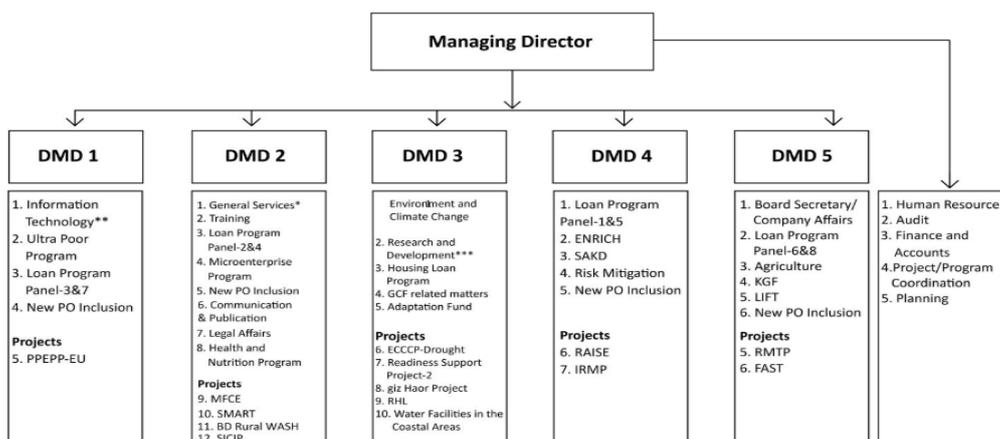


Figure 1-Organizational Hierarchy

2.5.3 Viability of Organizational Structure

PKSF is extremely systematic and functional in its organizational arrangement that is multi-tiered.

- Provides high levels of vertical responsibility of the partner organizations to the board of PKSF.
- Encourages specialization, which makes experts with various areas of specialisation effective.

- Enables policy-practice connectedness, where each of the divisions is directly accountable to implement.
- Promotes cross-departmental cooperation, particularly in such projects as climate, finance, and social inclusion.

Chapter Three: Internship Duties and Responsibilities

3.1 Introduction of the assigned Project

Under the Microenterprise Financing and Credit Enhancement (MFCE) Project, which is a special financial mechanism, during my tenure as the intern at the Palli Karma-Sahayak Foundation (PKSF), I was assigned to work on a special project that deals with improving access to credit by the micro and small enterprises in Bangladesh. The project is introduced in cooperation with financial institutions (banks and financial companies) and partner organizations (POs) of PKSF to organize a structured system of guaranteeing mitigation of credit risk and inclusive financing of the lower segment of the entrepreneurs.

The MFCE Project unit is based at PKSF in Agargaon, Dhaka, where I am directly reporting to the Assistant General Manager and project coordinator Dr. Mesbahuddin Ahmed, who supported me to learn the operational, financial and strategic dimensions of the project.

3.2 Department and Internship Duration

During my internship, I was engaged with the Microenterprise Program Unit, which directly implements and supervises the MFCE Project.

MFCE Project: Entire **three-month** period. The internship program was conducted over a period of three months, starting on September 8, 2025 and concluding on December 8, 2025. The internship fulfilled the academic requirement of the Bachelor of Business Administration (BBA) degree from the Department of Business Administration-General, Bangladesh University of Professionals (BUP).

3.3 Activity of the Project Unit

The Microenterprise Program Unit mainly deals with the design and operation of microenterprise-related credit and capacity-building projects of PKSF. Its activities include:

- Developing loan policy and credit enhancement policies.
- Monitoring partner organizations (POs) through which PKSF funds are given to final borrowers.
- Coming up with revolving fund sustainability mechanisms.
- Connecting with foreign developmental organizations like ADB and the World Bank.

The MFCE Project aims at selectively providing credit risk reduction to microenterprises through the introduction of Credit Enhancement Scheme (CES), the first of its kind in Bangladesh. It also focuses on financial inclusion, women entrepreneurship and development of green enterprises.

3.4 List of Duties and responsibilities Performed

The different duties that I carried out during my internship gave me the opportunity to learn more on both the theoretical and practical perspective of sustainability finance and credit risk management. My responsibilities and duties that were most important were:

Inventory and Policies Review: The sanction of the Approved Credit Enhancement Scheme (CES) Policy 2025 of PKSf, which consists of functional chapters of eligibility, guarantee coverage, claim settlement and accounting standards.

Surveyed other countries that had studied similar credit risk-sharing mechanisms:

- i. To identify international standards in credit risk-sharing mechanisms including those in Japan, Credit Guarantee Corporation (CGC), Malaysia, Credit Guarantee Corporation (CGC Malaysia Berhad), India, Credit Guarantee Fund Trust (Micro and Small Enterprises), Korea, Korea Technology Finance Corporation (KOTEC) and Chile, Fondo de Garantía para Pequeños Empresadores (FOGAPE).
- ii. These institutions are an eclectic array of effective credit guarantee models that place a greater concern as regards access to finance by small and medium enterprises, technological innovation, and inclusive economic growth as an outcome of structured financial interventions amid the populace and the private.
- iii. Comparing these schemes with the CES model of PKSf to demonstrate the strengths, weaknesses and opportunities of innovation.

Study and Writing Services:

- i. Facilitated internally recorded policy documentation by writing systematic summaries of policy changes of MFCE.
- ii. The analytical notes that were included in the understanding of credit guarantee operations as innovative financial inclusion mechanisms were formulated as analytical notes.

Chapter Four – Methodology

4.1 Study Design

The proposed internship report follows a descriptive and comparative qualitative study design that would help understand the operational, financial, and institutional processes of the Microenterprise Financing and Credit Enhancement (MFCE) Project of PKSF. The fundamental aim of this methodology framework is to determine the uniqueness of the Credit Enhancement Scheme (CES) of PKSF compared to the existing international credit guarantee structures (CGSs).

The study design is a combination of the primary observations based on the internship experience and the secondary analysis of documents with the focus on the interpretation of the institutional structures, credit guarantees mechanisms, and model of sharing risks. The analytical attention of the report is placed on finding similarities, deviations, and lessons of the best practices in the world in order to conclude meaningful insights to strengthen the MFCE program.

4.2 Data Sources and Collection Method

The study relies on a secondary data approach, secondary information obtained from credible and institutional sources.

Secondary Sources:

- The reports and publications of international development finance promoted by the Asian Development Bank (ADB), the World Bank, and OECD about SME credit guarantees, risk sharing models.
- Informal meetings and observations with the project officials and other field officers who are involved in credit guarantee operations
- The internal policy and performance reports submitted by PKSF including Approved Credit Enhancement Scheme(2025).
- The annual and policy reports of this kind of global credit guarantee associations include CGTMSE (India), KOTEC (South Korea), FOGAPE (Chile) and CGC Malaysia
- Associated journal articles, working papers and statistical summaries with respect to credit enhancement and financial inclusion.

All secondary data were sourced from verified institutional websites, annual reports, and authenticated documents to ensure reliability and validity. Data triangulation was used to strengthen the consistency of findings and interpretations.

4.3 Analytical Framework

The analysis followed a comparative self-evaluation framework structured across three levels:

- **Institutional and Structural Analysis:** Comparative analysis of organizational structure, type of governance and involvement of stakeholder of PKSf MFCE program with international CGS systems.
- **Final Analysis of Operational and Financial Mechanism:** Evaluation of guarantee coverage ratios, process of guarantee claim settlement, fee structure and partner eligibility policy to find out how well PKSf CES is aligned with international best practices.
- **Outcome-Based Study:** Qualitative indicators like accessibility, sustainability, mitigation efficiency of risk and inclusiveness were used to identify possible outcomes and policy implications.

To ease this, data modeling, which was in Excel sheets, was used to compare across countries, using major measures such as coverage ratio, default rate, annual limit and interest rate mechanisms. The methodology was effective to produce a strong and clear analytical result in accordance with the intended goals.

Chapter 5: Analysis, Discussion, and Findings of the Credit Enhancement Scheme (CES)

5.1 Analysis of Annual Credit Guarantee Limit of PKSf's CES

Annual limits will be sought by the Banks or FCs and the POs simultaneously. This will speed up the process such that the loans from the Banks or FCs can be disbursed immediately after their approval process because PKSf will have already issued Credit Guarantee Certificates that will serve as collateral for the loan to the POs.

AGL = The highest amount of assured loans that a Bank or FC can dispose of as POs during a financial year under CES. According to resources and business targets, banks or FCs offer their anticipated amount of loans in the application.

PKSf evaluates and authorizes the limit taking into account:

- Requested amount
- The prior use of bank or FC.
- Incident of assured loans.
- Such indicators as AD ratio, NPL ratio, CRAR, etc.

Only approved AGL will be valid in the same fiscal year. Loans that are given out through AGL are fully guaranteed throughout the loan tenure, but the guarantee fee has to be paid. AGL lapses which are not used will expire on the end of year; the Bank or FC will have to seek the same again after the next year.

In case a Bank or FC fully exhausts the AGL, PKSf can raise the limit, based on:

- The availability of the reserve fund of PKSf.
- Performance Bank or FC and Quality of loans.

The process diagram of Credit Guarantee is as follows:

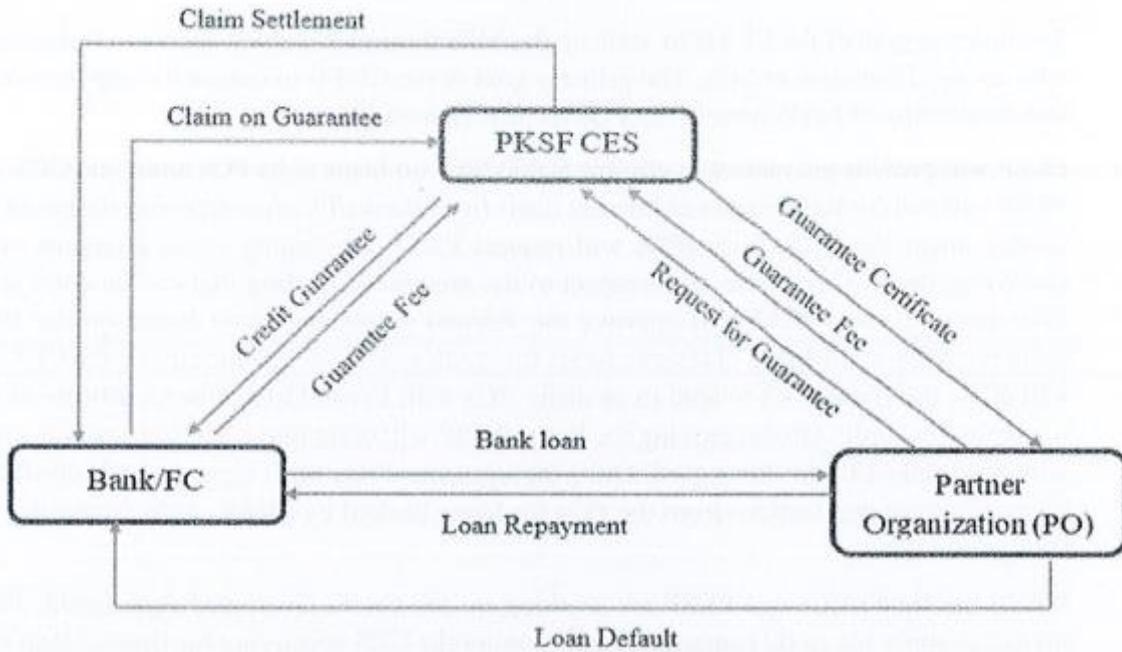


Figure 2-Process diagram of Credit Guarantee(Source: PKSFCES Policy 2025)

5.1.1 Analysis of Guarantee Claim Cap and Coverage Ratio of CES

The Guarantee Claim Cap refers to the maximum fraction of total loans being disbursed in a financial year that Banks or Finance Companies (FCs) are able to claim in relation to loan defaults by the Partner Organizations (POs). It is a limit on the cumulative amount of claims made on all the guaranteed loans released in a given fiscal year (FY) not on single loans. That cap is fixed to **15 percent** of the total amount of loan disbursed to POs in such FY. The loan portfolio of each Bank or FC is kept in single years and the claims are only made within the cap that is applicable in each FY in which loans were disbursed. As an example, in case BDT 80 crore was paid out in a given FY, the claims limit would be BDT 12 crore; the following FY where BDT 100 crore was paid out BDT 15 crore would be the limit. The claims on loans default may be made provided the amount of the entire claims should not exceed this limit.

The Guarantee coverage Ratio is the maximum aggregate percentage of every defaulted principal loan amount Banks or FCs may recover which may be 100 percent of the principal in the Guarantee Claim cap. Interest fee on loans is not included. The claim under the guarantee must come after banks or FCs have exhausted loan recovery efforts. The partial claim settlements can only be taken when the claim would otherwise surpass the Guarantee Claim Cap.

This guarantee is confined solely to term loans that can be paid in installments but not continuous nature loans such as Cash credit and Overdraft. PKSF has the authority to change the Guarantee Claim Cap and the post disbursement coverage ratio as required and will reduce the risk by evaluating credit worthiness and controlling the results of its actions.

					In BDT Crore
Loans	Borrower	Default Amount	Claimed Amount	Claim Paid	Remaining Claimable Amount
					15.00
First loan	PO-1	2.00	2.00	2.00	13.00
Second loan	PO-2	3.00	3.00	3.00	10.00
Third loan	PO-3	4.00	4.00	4.00	6.00
Fourth loan	PO-4	5.00	5.00	5.00	1.00
Fifth loan	PO-1	4.00	1.00	1.00	0
Sixth loan	PO-5	2.00	0	0	0

Table 1-Guarantee claim cap of CES(Source: PKSF's CES Policy 2025)

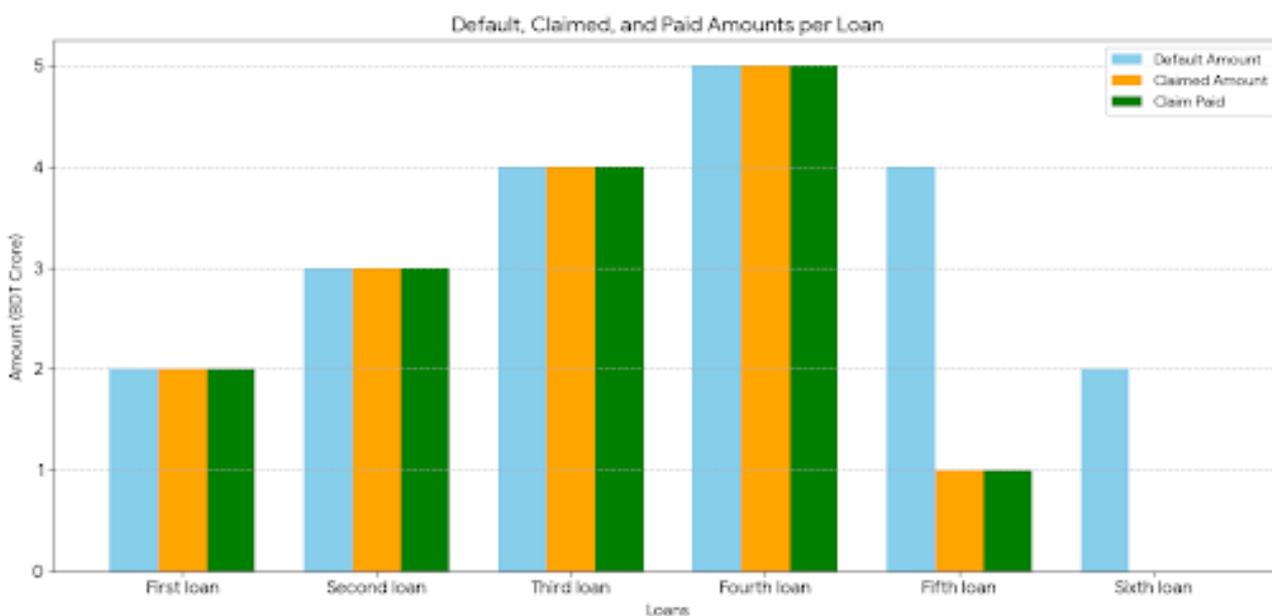


Figure 3-Default, Claimed, and Paid Amonts per Loan

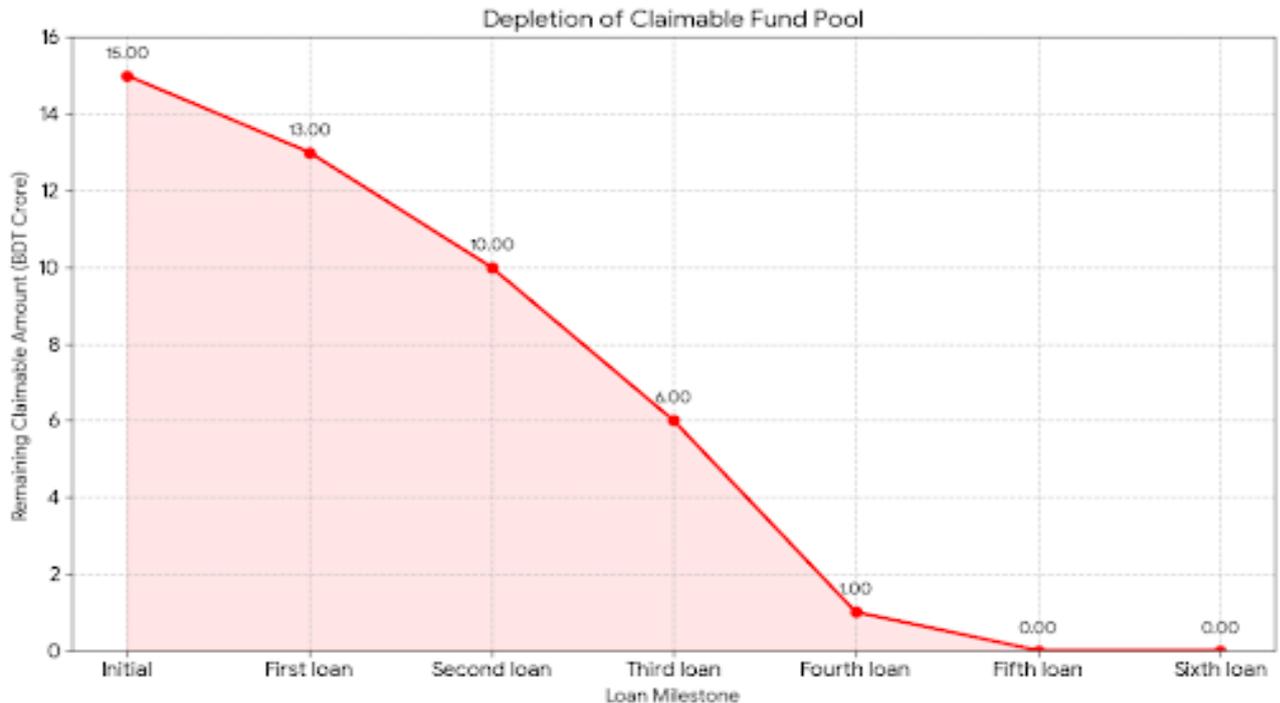


Figure 4-Depletion of Claimable Fund Pool

5.2 Risk Mitigation through the Credit Enhancement Framework

Bank risk aversion has been a major limitation to MSME financing in Bangladesh. The majority of micro-entrepreneurs have no collateral, audited financial records or credit history that forms a missing middle in credit dispensation. This is exactly what the CES of PKSf deals with using a shared-risk guarantee model. In this system, the pre-established coverage ratio will enable the banks to recoup a fraction of the loaned defaults on the guarantee fund of PKSf to greatly reduce their net exposure.

From a financial solution perspective, this model integrates the three pillars of risk management:

- **Redistribution of credit risk** - transferring some of the default risk to PKSf.
- **Portfolio Diversification** - Allowing banks to make loans to new sectors where the risk concentration is less strong.
- **Information Externality Correction** - Due diligence and monitoring by PKSf is a tool of signaling lender confidence.

5.2.1 Structural Components of the CES Risk Mitigation Model

The CES mechanism is designed to have three interconnected elements including guarantee coverage, fund allocation, and risk sharing ratio, which each of them is measured to ensure financial inclusion and portfolio sustainability.

Parameter	Description	PKSF CES Configuration (2025)	International Benchmark
Guarantee Coverage	% of loan covered by PKSF guarantee	Upto 100% of single loan not exceeding guaranteed claim cap	Korea (KODIT): 85% Chile (FOGAPE): 70–80% Malaysia (CGC): 80%
Risk Sharing Ratio	Distribution of credit loss between guarantor and lender	PKSF: 100%	Median OECD practice 70:30
Guarantee Fund Ceiling	Maximum exposure per institution	Any specific amount	Comparable to SME Bank Malaysia: MYR 2 million
Tenure of Coverage	Duration of guarantee coverage	Up to 2 years	Similar to KOTEC (3 years renewable)
Claim Settlement	Process for claim settlement and recourse	Verification of loss - filing claim - settlement (in 60 days)	In line with the automated settlement cycle of FOGAPE (45-60 days).

Table 2-Structural Components of the CES Risk Mitigation Model

(Source: PKSF CES Policy 2025; FOGAPE 2024; KODIT 2023; CGC Malaysia 2023)

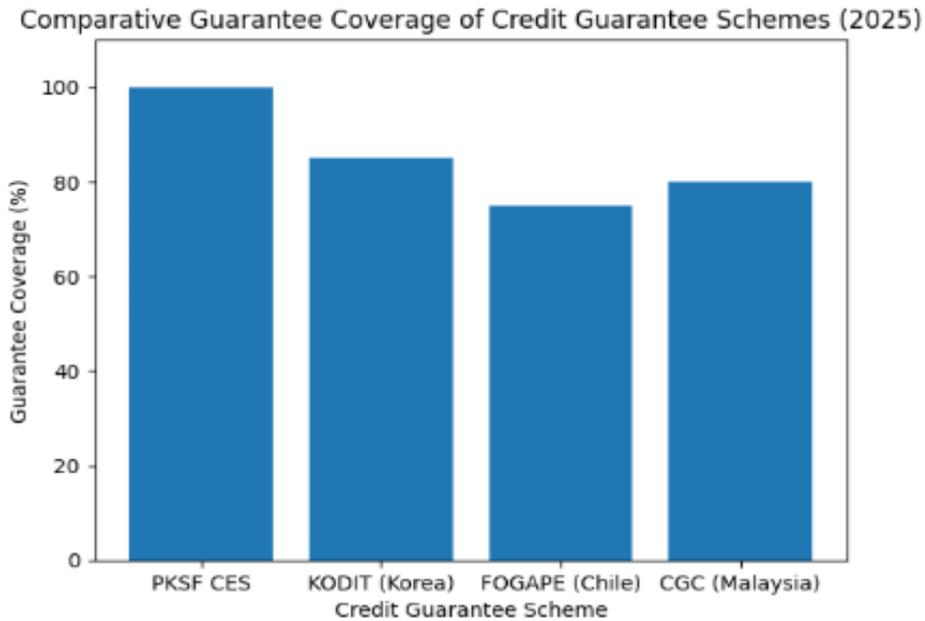


Figure 5-Comparative Guarantee Coverage of Credit Guarantee Scheme (2025)

This figure visually compares the **maximum guarantee coverage ratios** of PKSf’s Credit Enhancement Scheme (CES) with selected international credit guarantee institutions. The chart highlights that **PKSF CES provides up to 100% coverage on individual loans (subject to the overall guarantee claim cap)**, which is notably higher than most international benchmarks. In comparison, Korea’s KODIT offers approximately 85% coverage, Malaysia’s CGC around 80%, and Chile’s FOGAPE maintains a more conservative range of 70–80%. The higher single-loan coverage under PKSf CES indicates a strong risk absorption role by the guarantor, which is particularly relevant in Bangladesh’s microenterprise context where collateral scarcity and risk aversion are acute. While OECD practices generally favor partial coverage (around 70–80%) to limit moral hazard, PKSf’s design compensates for this through claim caps, rigorous PO appraisal, and intensive post-disbursement monitoring. As such, the scheme reflects a development-oriented financial solution, prioritizing credit access and confidence-building over purely commercial risk optimization.

5.2.2 Operational Mechanism and Credit Flow

Under CES, PKSf establishes a special Credit Enhancement Fund (CEF) which serves as a buffer to act as a contingent liability on participating POs. The five steps are as follows in the operational process:

- **Loan Origination by PO:** POs are able to identify potential microenterprises having viable projects but having limited collateral.
- **Guarantee Application :** POs also provide information about the loan to PKSf under the umbrella of CES to be guaranteed.

- **Risk Assessment and Approval** : PKSf conducts an evaluation based on a standardized scoring scheme based on repayment history, credit exposure and sectoral diversification.
- **Issuance of Guarantee:** CES covers 100% of each guaranteed loan within the Guarantee Claim Cap.
- **Monitoring & Claim Settlement** : PKSf has a 99.9% recovery rate on loans to POs, it is expected that as long as Banks or FCs diligently follow up for repayment of loans regularly, any claims on credit guarantee by the Banks or FCs as a result of loan default will not exceed the Guarantee Claim Cap.

The structure does not only increase liquidity provision to underserved areas of the enterprise but also introduces concentration risk related to credit to the partner network.

5.2.3 Risk Transfer and Systemic Financial Stability

On the financial systems front, CES helps in the creation of macro-stability in terms of portfolio diversification and reduction of moral hazard. PKSf maintains accountability to the lenders by ensuring that POs do not have a full exposure, which limits the contagion impact of a massive default. We further get that the structural revolving guarantee fund of the CES is self-renewing in the sense that it also serves as a meso-level stabilizer of financial markets, taking in the idiosyncratic risks that would otherwise cause a local financial ecosystem to crash. PKSf therefore is not a micro-level guarantee instrument; it is also a meso-level financial stabilizer. This is in line with the IMF-recommended strategy of risk containment in an inclusive finance model, which is based on shared liability and the sustainability of cyclical funds.

PKSF Guarantee Fund: Mechanism



Figure 6-Movement of Credit fund

The model shows the cyclicity of risk transfer and recovery, which is a characteristic attribute that guarantees financial stability and long-term accessibility of credit among the enterprise clusters that are marginalized.

Essentially, CES framework is a representation of indigenous but globally consistent financial risk lessening framework. It is a reflection of the institutional vision held by PKSF to establish an inclusive and sustainable financial ecosystem by replacing collateral with guarantee-backed confidence, and to balance financial prudence and developmental inclusivity. As a financial solution, CES serves as credit enricher and economic leveler, and hoists institutional and social asymmetries in the financial situation of Bangladesh on the shoulder.

5.3 PKSF's CES as a Financial Solution for Emerging Economies

The CES of PKSF presents a stratified process of risk-sharing between PKSF, partners organizations (POs), and the participating banks/financial companies (FCs). The partial credit guarantee essentially lowers risk-weighted capital requirements of financial institutions and thus allows them to give credit to the MSMEs that would have been considered as being unbankable.

Comparative Insight:

KODIT and KOTEC of South Korea are mature models whereby a risk mitigation and credit information infrastructure and technological credit scoring complement guarantee mechanisms.

CGTMSE is India's flagship credit guarantee scheme for MSMEs, designed to bridge the collateral gap and enable small enterprises to access formal credit. Targeted support for underserved groups (women, SC/ST, NER).

Thailand's Thai Credit Guarantee Corporation (TCG) of Thailand offers up to 80 percent coverage of MSME loans with government support on an indemnity and has a very impressive default recovery rate of 88%.

A similar structure is reflected in CGCC (Credit Guarantee Corporation of Cambodia) which pays much attention to the digital process of guarantee approval and follow-up of loans.

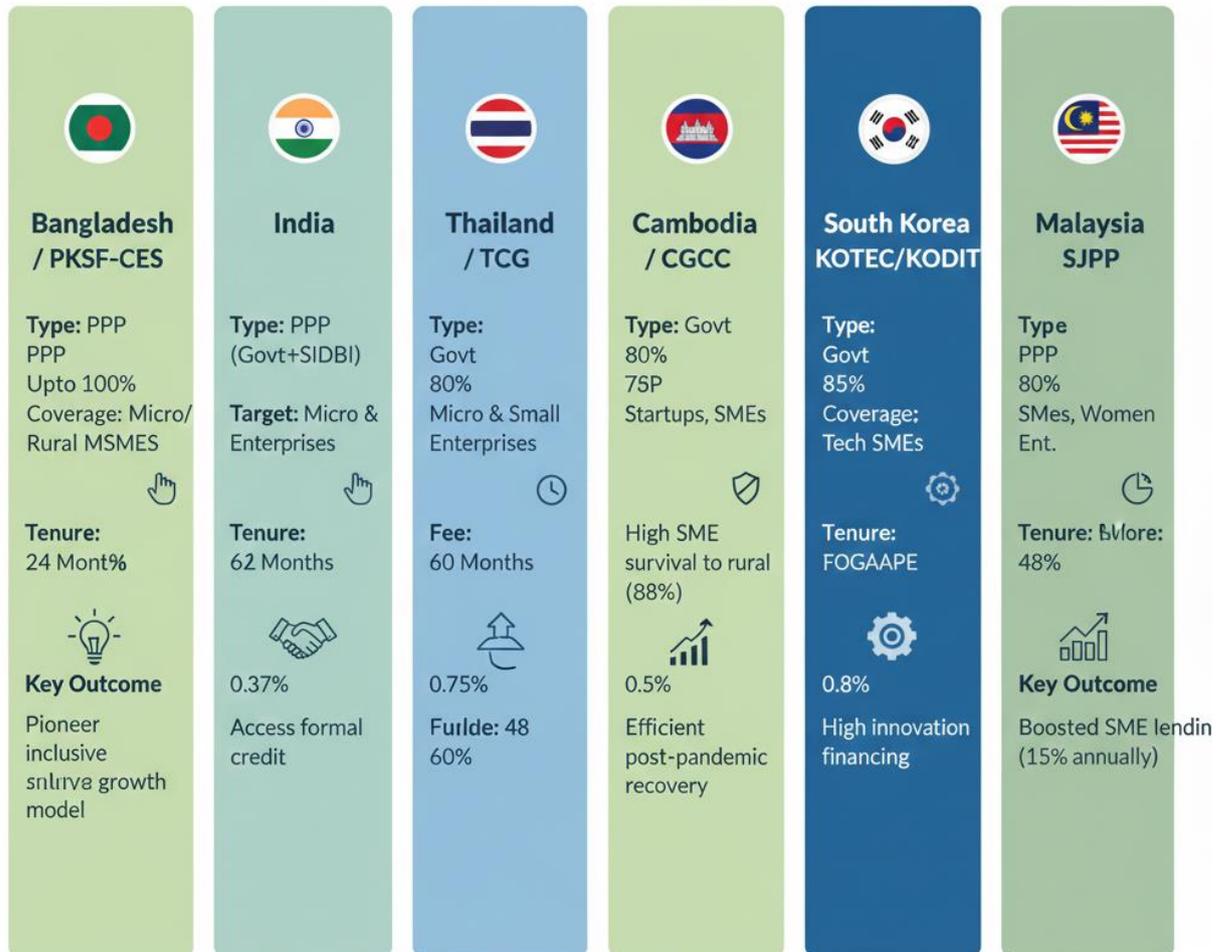
Chile has one of the most effective models of FOGAPE, which has a full coverage (70-85)% and a revolving fund system to maintain the guarantee pool.

The CES of PKSF is still relatively new, but it takes a similar direction that involves risk-sharing, effective settlement of claims, and inclusion of small business people into the financial system.

Comparative Distinction Table is as follows:

Global Credit Guarantee Schemes: A Comparison

Supporting Micro, Small & Medium Enterprises (MSMEs) Globally



Data Source: Various Govt & Financial Reports (2023-2024)

Figure 7-Comparative Distinction Table

5.3.1 Comparative Assessment Framework

The comparison focuses on several qualitative dimensions that reflect the effectiveness and innovation of credit guarantee programs worldwide. These dimensions include:

Dimension	Description
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Institutional Type	Governmental, private, or public–private partnership (PPP)
Regulatory Oversight	Central bank, finance ministry, or independent body
Guarantee Coverage	Guarantee Coverage as of described in the guarantee policy
Target Borrowers	MSMEs, women-led enterprises, rural entrepreneurs
Funding Source	Government, international donors, pooled funds
Annual Guarantee Fee	Charged percentage to financial institutions
Loan Tenure	Average duration in months
Performance Metrics	Credit volume disbursed, recovery rate, sustainability

Table 3-Comparative Assessment Framework

5.3.2 Qualitative Assessment: PKSF’s Financial Innovation

Evaluation Criteria	PKSF-CES	Benchmark Average	Remarks
Risk Coverage	High (100% of single loan not exceeding guarantee claim cap)	Medium-High (75%)	Balanced between lender confidence and fiscal prudence
Claim Process	Structured (60-day validation)	Varies (30–90 days)	Comparable efficiency
Monitoring Mechanism	PO and PKSF dual-layer supervision	Single-layer in most models	More accountable structure

Sustainability	Funded via revolving model and donor support	Similar in PPP schemes	Financially viable
Innovation	Integration with MFCE and microenterprise capacity building	Limited in others	Unique hybrid integration

Table 4-Qualitative Assessment of PKSf's Financial Innovation

5.4 Findings of CES as a Financial Innovation

The innovation of the **Credit Enhancement Scheme (CES)** lies in how it shifts the paradigm from traditional "charity-based" lending to a modern, **risk-sharing financial ecosystem**.

By bridging the gap between microfinance institutions (MFIs) and commercial banks, PKSf has introduced several "firsts" for the Bangladeshi economy:

1. Structural Innovation: The Risk-Sharing Model

Unlike traditional schemes where the lender bears 100% of the risk, the CES creates a **collaborative safety net**:

- **The "Non-Bankable" Bridge:** It allows small Partner Organizations (POs) to access commercial bank funds—something previously impossible due to lack of collateral.
- **Tiered Risk Distribution:** PKSf provides a partial guarantee (typically 30–50%) to banks, which "de-risks" the portfolio and encourages commercial banks to lend to the micro-sector.
- **Direct-to-Bank Guarantee:** PKSf directly guarantees the loan at the bank level, ensuring that if a PO defaults, the bank's capital is protected.

2. Financial Product Innovation

The scheme doesn't just offer standard loans; it customizes credit for modern economic needs:

- **Start-up Capital & Lease Financing:** Introduced products specifically for new entrepreneurs and those needing to acquire physical assets (machinery/equipment) rather than just working capital.
- **"Appropriate Financing":** Moving away from rigid "microcredit" to flexible "appropriate financing" that matches the cash flow and harvesting patterns of the business.
- **Climate-Resilient Allocation:** A dedicated **10%** of funds are earmarked specifically for climate-vulnerable areas, incentivizing businesses to adopt green or adaptive technologies.

3. Operational & Digital Innovation

PKSF is modernizing the backend of micro-entrepreneurship:

- **Digital Guarantee Management:** Moving toward paperless, digital platforms to track and manage guarantees in real-time, increasing transparency.
- **The "Nudge Theory" Application:** Implementing behavioral science to influence micro-entrepreneurs toward sustainable business growth and environmental compliance.
- **Entrepreneur Database:** Building a national database of micro-entrepreneurs to provide them with a "digital credit history," making them bankable in the long run.

4. Social Impact Innovation

Innovation here is used as a tool for radical inclusion:

- **Gender-Centric Design:** The scheme mandates that **80% of participants be women**, using financial innovation specifically to break patriarchal barriers to capital.
- **Cluster-Based Lending:** Instead of isolated loans, the CES prioritizes "business clusters" (e.g., shoe-making in Bhairab or garments in Pabna) to promote economies of scale.

Chapter 6: Conclusion

6.1 Conclusion and Future Prospects

The Credit Enhancement Scheme by PKSF represents a form of transitional development model of developing economies, which is hybrid in nature combining both social impact and financial market rationales. Since Bangladesh is progressing towards middle-income development, the transformation of CES has the potential to become a driving force of sustainable enterprise finance, with the focus on:

Green Credit Integration: Incorporating environmental and social governance (ESG) principles into guarantee operations.

Regional Replicability: Application of CES framework to other similar emerging markets in South Asia and Africa.

Data-Driven Policy Insight: The application of performance analytics to constantly improve the guarantee criteria and outreach strategy.

With the match between development finance and market-based ideals, the CES of PKSF can become the brightest flagship tool of inclusive and sustainable finance that would redefine the role of Bangladesh as a model of pioneering financial instruments to address emerging market economies.

6.2 Shortcomings of the Study

Although attempts were made to make the study rigorous and consistent, a number of limitations were faced in the study period:

Limited Data Availability: Part of the internal financial data of PKSF was confidential and could not be accessed to conduct the in-depth quantitative validation.

Time Constraints: The three-month internship did not allow a lot of time to collect data in the field and interview stakeholders at the field level.

Cross-country Scope: The cross-country comparisons were mostly based on secondary data, which were publicly available reports and reported differently and at different periods .

Policy Sensitivity: The CES policy of PKSF (2025) is a comparatively recent intervention, and this means that the outcomes-based analysis of longitudinal performance data was not fully available.

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