

# Poor collateral, documentation create hurdles for MSMEs

WB-PRI report on access to finance

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Senior Secretary of Financial Institutions Division Md Ashadul Islam speaking at a workshop on "Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh: Findings and Perspectives" at the PRI conference room in the city on Wednesday — FE photo

The MSMEs (micro, small and medium enterprises) in Bangladesh are subject to a number of financing constraints, like - poor quality of collateral, inadequate documentation, and ill-defined business plans etc, according to a report.

The report, titled 'Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh', was prepared by the World Bank Group (WB)

and the Policy Research Institute of Bangladesh (PRI). It was made public at a programme at PRI office in the city on Wednesday.

The report mentioned that the MSMEs' access to formal finance is limited in Bangladesh compared to the average in the South Asian region, with an estimated financing gap of Tk 237 billion.

Some 27.5 per cent of small firms have bank loans/lines of credit, compared to 44 per cent of large firms, due to constraints in access to formal finance by the MSMEs, the report found.

The report identified that majority of the MSMEs are not in the Credit Information Bureau (CIB) list that led to facing difficulties in their access to finance.

It also said there are significant financial infrastructure weaknesses that need to be addressed to encourage market-driven MSME financial inclusion.

The report recommended a number of short- and medium-term initiatives, including promoting the use of a unified definition at policy level as well as improving data collection and analysis procedure.

It urged the authorities concerned to refocus on the most constrained section among the MSMEs that is the 'missing middle', as small firms and firms at low-end of the medium-sized enterprises face the utmost difficulties in accessing bank finance.

An evaluation of the relevant schemes of the past and the Bangladesh Bank's (BB) guidelines will help formulate better policies for financing the MSMEs in future, the report opined.

It observed that the CIB report should include information of all commercial loans, regardless of value, to benefit the MSMEs.

Allowing private firms and individuals to access credit information will also be a positive step towards ensuring access to finance, the report recommended.

Speaking as the chief guest at the programme, Md Ashadul Islam, Senior Secretary of the Financial Institutions Division, said loan obtaining process is very complicated for the MSMEs.

He said there is an increasing demand of loans among the MSMEs, but the complicated process of getting loan is driving them away.

"Both bank staffs and loan aspirants need some kind of education to ease the complicated process of getting loan."

He also stressed on the need of quality financing in the MSMEs.

Speaking as the guest of honour, S M Moniruzzaman, Deputy Governor of the BB, said the MSMEs face major challenges in accessing finance with simple terms and conditions. It happens, mainly because there is an asymmetric information problem between suppliers and seekers of funds.

He said a new act on secured transaction (movable property) will be enacted, which will create a legal platform for the MSMEs to avail more finance.

The BB deputy governor said the central bank is going to publish a new master circular-based review on the past policies of MSMEs.

Syed Abdul Momen, Head of SME Banking of the BRAC Bank Limited, said policy support from the regulatory authorities concerned should be based on field-level studies rather than 'copy-paste' of success stories from other countries.

He also said the bank is going to expand overall financial services in next two years by using its 5,000 agents.

Arif Khan, CEO and Managing Director (MD) of the IDLC Finance Limited, said if banks and financial institutions do not get enough credit information from the CIB, there should be other ways to get the information.

He said mobile operators have huge data of customers. The banks should have access to those data to get information of their clients.

Zaidi Sattar, Chairman of the PRI, delivered welcome address at the programme.

Rahel Ahmed, MD of the Prime Bank Limited, and Sivarao Aparahu, Senior Manager of Policy Monitoring and Inclusive Development Division of the SME Corporation of Malaysia, among others, also spoke on the occasion.

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<http://today.thefinancialexpress.com.bd/last-page/poor-collateral-documentation-create-hurdles-for-msmes-1557335669>

## SMEs constrained by limited access to credit: study

### Star Business Report

The micro, small and medium enterprises sector (MSMEs) in Bangladesh is constrained by limited access to credit, leaving them with a financing need of Tk 23,700 crore, according to a study.

The access to finance for MSMEs is limited in Bangladesh compared to the average in South Asia, said a study prepared by the World Bank Group and the Policy Research Institute of Bangladesh (PRI).

The report was unveiled at an event -- Financing Solutions for Micro, Small and Medium Enterprises (MSMEs) in Bangladesh: Findings and Perspectives – organized by the PRI at its conference room in Dhaka yesterday.

Some 27.5 percent of the small firms have access to credit compared to 44 percent of large firms because of the constraints in access to formal finance, according to the report.

As of June 2016, the number of microcredit borrowers stood at 3.77 crore.

The majority of the MSMEs are not included in the list of the Credit Information Bureau (CIB) of the central bank that led to difficulties in accessing funds.

The CIB report should include all commercial loans, regardless of value, to benefit MSMEs, it said.

There are significant financial infrastructure weaknesses that need to be addressed to encourage financial inclusion, it said. Small firms and firms at the low-end of medium-sized enterprises have the most difficulty in accessing bank finance, according to the report.

The report recommended a number of short- and medium-term initiatives, including promotion of the use of a unified definition at the policy level and improvement of data collection and analysis of data.

Undertaking an evaluation of past schemes and the Bangladesh Bank's guidelines will help formulate a better MSME finance policy, the report suggested.

The loan process is very complicated for MSMEs, said Md Ashadul Islam, senior secretary of the Financial Institutions Division at the finance ministry.

There is an increasing demand of loans in the MSMEs sector but complicated process is driving them away, he said, adding that bank staff and loan aspirants need some kind of education to simplify the process.

A new law on movable property will be enacted to create a legal platform for the MSMEs to get more finance, said M Moniruzzaman, deputy governor of the central bank.

PRI Chairman Zaidi Sattar moderated the session. Syed Abdul Momen, head of SME banking at Brac Bank, also spoke.

<https://www.thedailystar.net/business/news/smes-constrained-limited-access-credit-study-1740949>

## Dhaka Tribune

### Absence of a unified definition bar for financing SMEs

[Belal Muntasir](#)

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Speakers at the workshop titled 'Financing Solutions for Micro, Small and Medium Enterprises (MSMEs) in Bangladesh: Findings and Perspectives' on Wednesday **Mehedi Hossain/Dhaka Tribune**

There have been multiple definitions deployed since 2003, including by the Economic Census, the Bangladesh Industrial Policy and by the Bangladesh Bank

Absence of a unified definition as to what a micro, small and medium enterprise is makes it all the hard for MSMEs to get access to finance, speakers have said while addressing a workshop.

Policy Research Institute of Bangladesh (PRI) and the World Bank jointly organized the event in the capital on Wednesday.

“Definition of SME is the big challenge for the lenders,” said Rahel Ahmed, managing director and CEO of Prime Bank.

He said that different banks had different definitions of SME, which impacted financing.

IDLC Finance Managing Director and CEO Arif Khan said different agencies of the government defined SME in different ways.

“As a result, it is not clear which should be considered SME or not,” he pointed out.

Brac Bank Managing Director and CEO Selim RF Hussain said confusion over the definition was one among other problems that held back the SME sector in the country.

They talked on the issue in a panel discussion after Senior Financial Sector Specialist of World Bank Mihasonirina Andrianaivo presented a study report on financial solutions for MSME in Bangladesh.

Md Ashadul Islam, senior secretary of the Financial Institutions Division of Finance Ministry, graced the program as chief guest and PRI Chairman Zaidi Sattar delivered the welcome speech.

The World Bank study report says Bangladesh lacks a uniform definition of micro, small and medium enterprises, which has resulted in fundamental knowledge gaps.

There have been multiple definitions deployed since 2003, including by the Economic Census, the Bangladesh Industrial Policy and by the Bangladesh Bank (BB).

Bangladesh Bureau of Statistics (BBS) uses full time employment as the classification basis for the Economic Census, while industry ministry uses the value of fixed assets and the number of employees in the Industrial Policy, the study mentions.

The Bangladesh Bank took the definition mentioned in the Industrial policy in 2011 but changed it in 2016, resetting the fixed asset ambits and number of manpower as the criteria.

The report says that currently the definition set by 2016 Industrial policy is now broadly accepted in policy level, which identifies the enterprises having less than Tk1 million and 15 employed workers as cottage industry, Tk1-7.5 million and 16-30 employees as micro industry, Tk7.5-150 million and 31-120 employees as small industry, and Tk150-500 million and 121-300 employee as medium industry.

Besides, the enterprises, which provide service, having Tk1-20 million and 16-50 manpower are counted as small and those having Tk20-300 million and 51-120 employees as medium.

Financial Institutions Division Senior Secretary Ashadul said that though micro and small entrepreneurs were funded in other countries by capital market, non-bank financial institutions, banks and other platforms, in Bangladesh they depended only on banks.

“But I have observed that getting money from the bank by the SMEs is very complicated,” he stated, adding that banks were not interested to take risk giving small loans.

“As a result, most of the SMEs go to NGOs, money lenders and other informal sources, and take loan at a very high interest rates,” he said.

Prime Bank Managing Director Rahel said that historically most private commercial banks used to finance large enterprises and corporate institutions but later they started to finance the medium entrepreneurs.

“The banks still lag behind as regard disbursing loans for micro and small entrepreneurs,” he claimed.

IDLC Finance MD Arif said many claimed that financing SMEs and women entrepreneurs was loss-incurring.

“But we have observed that it has no risk at all and it rather lowers the non-performing loans,” he said.

Brac Bank MD Selim RF Hussain said basically three barriers including the central bank’s policy were behind the grim situation of the SMEs.

“Bangladesh Bank instructs us to take many documents from the SMEs, which most of them cannot afford,” he added.

Besides, refinancing schemes or other policy supports were not properly going to the real SMEs, he claimed.

### **Financing Challenges**

The World Bank, in the report, has identified five major challenges in financing micro, small and medium entrepreneurs.

It says, firstly, small firms can use limited formal finance like bank and capital market.

Secondly, the firms perceive access to finance as important obstacle to the business environment.

Thirdly, financial constraints faced by MSMEs are widely recognized in the academic literature and other studies.

Fourthly, several factors on the demand and supply can explain large financing gaps for them.

Fifthly, the country's micro and small entrepreneurs are subject to a number of financing constraints, among them, poor quality of collateral, inadequate documentation and ill-defined business plans.

### **Recommendations**

The World Bank report makes 11 recommendations including establishing a multi-party, central coordinating body to promote the MSME financing and their development.

Among others, it suggests using unified definition, improving the credit information infrastructure, enacting the secure transaction law and creating a register, institutionalizing alternative dispute resolution, promoting an effective payment system and introducing risk sharing facilities.

<http://www.dhakatribune.com/business/regulations/2019/05/08/absence-of-a-unified-definition-bar-for-financing-smes>