

United Nations Economic and Social Commission for Asia and the Pacific
MSME Financing Series No. 5

Micro, Small and Medium-sized Enterprises' Access to Finance in Bangladesh



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About this series

Micro, small and medium-sized enterprises (MSME) make a significant contribution to economic growth and job creation across Asia and the Pacific. However, they often encounter difficulties in accessing finance. Women-headed MSME's are particularly underserved by financial institutions due to economic, regulatory and socio-cultural factors. In recent decades, governments and related agencies have set up mechanisms to facilitate the flow of finance. The result has been an increase in financial inclusion, but the extent to which the financing gap has been reduced is not well known.

To gain more understanding about this issue, key questions need to be addressed, including the following: Is finance still a constraint, including for certain classes of enterprises, such as medium-sized ones? What mechanisms, such as credit guarantees, collateral support, and directed credit, have been the most beneficial in closing the gap? Is there gender disparity in access to finance? And are there public and/or private sector measures to overcome any existing regulatory, normative and contextual barriers to women entrepreneurs' equal access to finance? How have demand-side programmes, such as financial literacy, aided MSMEs? And how have FinTech and digital finance helped to increase access to finance?

To seek answers to these and other important questions, the Economic and Social Commission for Asia and the Pacific (ESCAP) developed *A Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific*. The Framework provided direction for the preparation of detailed national studies on MSMEs' access to finance in selected countries of Asia and the Pacific. The studies were prepared by researchers and specialized consultants under the guidance of a lead country agency with policy responsibilities in MSME financing. In some of the studies, an advisory committee composed of representatives from departments, agencies, financial institutions, and organizations involved in MSME promotion and financing provided direction and support to the authors.

This series presents the Framework along with national studies that were prepared following its guidelines. Each national study is expected to contribute, through policy analyses and recommendations, to policy discussions on how to improve access to finance by MSMEs. The preparation of national studies based on a common framework is also expected to facilitate comparisons across countries to share experiences, identify good practices, and understand common challenges.

Some of the studies contributed to ESCAP capacity building projects. The studies for Cambodia and Nepal were funded by the United Nations Regular Programme of Technical Cooperation, and the studies for Bangladesh and Samoa were funded by the Government of Canada, through Global Affairs Canada, in the context of ESCAP's Catalysing Women's Entrepreneurship Programme. The preparation of these four studies benefitted from a partnership between ESCAP and the United Nations Capital Development Fund (UNCDF). The latter contributed financial support for the Nepal study through UNNATI-Access to Finance (A2F) Project funded by the Government of Denmark. In addition, the Task Force on Banking and Finance of ESCAP's Sustainable Business Network funded a comparative study of MSME financing in Singapore and Hong Kong, China.

About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) at the request of the Bangladesh Small and Medium Enterprise Foundation. The report was prepared by Professor Sheikh Morshed Jahan, ESCAP Consultant and Associate Professor at the Institute of Business Administration at the University of Dhaka, and Katherine S. Miles, ESCAP Consultant.

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The preparation of the report was guided by an Advisory Committee composed of Mr. Md. Safiqul Islam, Managing Director of the SME Foundation (Chair); Professor Shibli Rubayat Ul Islam, Dean of the Faculty of Business Studies, University of Dhaka; Mr. Anarul Kabir, Deputy Secretary of the Finance Division, Ministry of Finance; Ms. Lila Rashid, General Manager of the SME & Special Programmes Department, Bangladesh Bank; Mr. Md. Ashraful Alam, Country Project Coordinator, United Nations Capital Development Fund (UNCDF); Dr. Momtaz Uddin Ahmed, Professor, Department of Economics, University of Dhaka; and Mr. Mirza Nurul Ghani Shovon, President of the National Association of Small Cottage Industries of Bangladesh (NASCIB).

This research is based on both primary and secondary data. Primary data were collected through bilateral stakeholder interviews and focus group discussions with MSME finance stakeholders including at an expert group meeting. Findings were also presented and validated by an advisory committee and at a national stakeholder consultation workshop with 60+ delegates organized by ESCAP and the Government of Bangladesh and held in Dhaka on 10 December 2019.

The preparation of the report faced delays due to the fact the research and original drafting of the study was primarily undertaken prior to the COVID pandemic. This has led to an updated assessment and text due to the changing business environment and constraints facing entrepreneurs in Bangladesh.

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Abbreviations

AIF	Alternative investment funds
AFI	Alliance for Financial Inclusion
AIFM	Alternative Investment Fund managers
AML-CFT	Anti-Money Laundering & Counter Financing of Terrorism (AML-CFT)
APG	Asia/Pacific Group on Money Laundering
BB	Bangladesh Bank
BDT	Bangladeshi Taka
BFP-B	Business Finance for the Poor – Bangladesh
BSCIC	Bangladesh Small and Cottage Industries Corporation
BEZA	Bangladesh Economic Zone Authority
BIDA	Bangladesh Investment Development Authority
BSEC	Bangladesh Securities and Exchange Commission
B2P	business-to-private payments
CGF	Credit Guarantee Fund
CGS	Credit Guarantee Scheme
CIB	Credit Information Bureau
CMSME	Cottage, Micro, Small and Medium enterprises
CSM	Cottage, small and micro
CRC	Credit Rating Companies
CRISL	Credit Rating Information and Services Limited
e-KYC	electronic Know Your Customer
DWA	Department of Women Affairs
DFS	Digital Financial Service
DFID	Department for International Development
DSE	Dhaka Stock Exchange
DYD	Department of Youth Development
ESCAP	Economic and Social Commission for Asia and the Pacific
FATF	Financial Action Taskforce
GDP	Gross domestic product
G2P	government-to-private
ICC	International Chamber of Commerce
IFC	International Finance Corporation
IPO	Initial Public Offering
ISPCBs	Islami Shariah Based PCBs
KYC	Know Your Customer
LDC	Least Developed Country
LFPR	Labour Force Participation Rate
NBFI	Non-Bank Financial Institution
NGO	Non-Government Organisation
NFIS-B	National Financial Inclusion Strategy – Bangladesh
NID	National Identification Documents
NNC	NFIS-B National Council
NSC	NFIS-B Steering Committee
NIP	National Industrial Policy
MC	Ministry of Commerce
MF-CIB	Microfinance Credit Information Bureau
MFS	Mobile Financial Services
MI	Ministry of Industry

MIC	Middle Income Country
MLPA	Money Laundering Prevention Act
MoWCA	Ministry of Women and Children Affairs
MRA	Micro Credit Regulatory Authority
MoF	Ministry of Finance
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprises
NAC	NFIS-B Advocacy Committee
NSDC	National SME Development Council
P2P	Private-to-private payment
PCBs	Private Commercial Banks
PSP	Payment Service Provider
PDBF	Rural Poverty Alleviation Foundation
PKSF	Palli Karma-Sahayak Foundation
SCITI	Small and Cottage Industries Training Institute
SDCs	Skill development centers
SMESPD	SME & Special Programmes Department
SOCBs	State owned Commercial Banks
SPV	Special purpose vehicles
TAN	The Angel's Network
UNDP	United Nations Development Program
UNCDF	United Nations Capital Development Fund
UNIDROIT	The International Institute for the Unification of Private Law
UNCITRAL	United Nations Commission on International Trade Law
VC	Venture capital

Note: Conversions from Bangladeshi Taka (BDT) to USD in the text are for illustrative purposes only. They are based on the average exchange rate for 2019-2020 published by Bangladesh Bank of BDT 84.7811 = USD 1.00.

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