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MSME Financing Series No. 1

A Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific



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Enquiries on this report can be sent to:

Director
Macroeconomic Policy and Financing for Development Division
United Nations Economic and Social Commission for Asia and the Pacific
United Nations Building, Rajadamnern Nok Avenue
Bangkok 10200, Thailand
Escap-mpdd@un.org

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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 MSME? 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 MSME Access to Finance in Asia and the Pacific*. The Framework provided direction for the preparation of detailed national studies on MSME 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.

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- Nik Mohd Zainul Kamarun Bin N Kamil, Policy Manager, MSME Finance, Alliance for Financial Inclusion, Kuala Lumpur, Malaysia
- N. K. Maini, Board Member of Microfinance Institutions Network, New Delhi, India
- Deanna Morris, Programme Analyst, UNCDF, Bangkok, Thailand
- Jong Goo Lee, Director, Korea Credit Guarantee Fund, Republic of Korea
- Atiur Rahman, Professor, Department of Development Studies, Dhaka University and Former Governor, Bangladesh Bank
- Pornwasa Sirinupongs, Senior Expert on International Financial and fiscal Policy, Fiscal Policy Office, Ministry of Finance, Thailand
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Introduction

Micro, small and medium-sized enterprises (MSMEs) 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 under-served by financial institutions due to economic, regulatory and socio-cultural factors. Governments and related agencies over the years 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.

Is finance still a constraint, including for certain classes of enterprises, such as medium-sized ones? What mechanisms, such as credit guarantees, collateral supports, and directed credit, have been the most beneficial in closing the gap? Is there a gender gap in access to finance? 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? How has fintech and digital finance helped increase access to finance? These are key questions that need to be addressed.¹

This framework seeks to assess the extent of financial inclusion among MSMEs and to analyse the various mechanisms in place. The application of the framework will help to understand the current situation, identify gaps in financial inclusion, including gender gaps, and suggest policy options for specific countries (in part based on comparisons between countries).

The framework sets out the various institutional and programme mechanisms that a country has (and does not have) to support MSME finance. The framework includes both supply side issues as well as demand side issues such as financial literacy, financial education, and loan proposal writing. The focus is on access to finance and does not discuss other areas that are important for enterprise growth, such as technology adoption, human capital, the general legal and regulatory environment for businesses, market access, and infrastructure. The framework provides direction on how to assess the relative importance and effectiveness of various mechanisms that increase financial access. Its intended users are study teams that make individual country assessments.

The purpose of providing a single framework to all study teams is twofold.

Firstly, it will give all study teams some direction (a head start) in knowing what to study and assess. In short, it provides guidance on “what to look for”.

Secondly, a single framework should help to ensure that country study reports are similar in their structure and content. This will allow for easy comparability between countries. In short, it should help to ensure all country reports have “studied the same things”.

These two aspects are important because most countries have a variety of mechanisms to support MSME finance. Without a common framework, each study team may end up focusing on the most prominent mechanisms while ignoring or downplaying others.

Study teams should address all the aspects in the framework. This includes indicating what mechanisms do not exist or are not widely used. Policy makers will use this information to understand the strengths but also the holes or weaknesses in the support system. In short, it is important to know “what is not there” as well as what is there.

¹ Several databases and publications on MSMEs currently exist. See Annex 2, especially the section on Databases and Cross-Country Scoring.

Although efforts have been made to make the framework as comprehensive as possible in its coverage, it is possible that some important mechanisms or issues have been involuntary omitted. As such, the framework will be revised and improved over time, as it is implemented in specific country studies.

Good practices — Not-so-good practices

Study teams should be on the lookout for examples of good practice that might be useful as policy suggestions for other countries. This can be a law that is particularly effective or a programme that has increased the flow of credit. Some private banks have been innovative, including banks that have teamed up with microfinance institutions or used their techniques to reach smaller enterprises or women entrepreneurs.

At the same time, examples of not-so-good (bad) practices can also be highlighted. These are not meant to embarrass the government or a particular institution but to highlight where bottlenecks have arisen. Often policymakers may not be aware that a problem exists. Highlighting the problem can help both the particular case study country and other countries in knowing what to avoid. For example, a government may set an MSME lending target, but banks would rather pay a fine than meet the target. Or, a development bank may be highly risk adverse and channel its credit to larger, low-risk enterprises that can access finance from commercial banks. Or the institutional and contractual environment may make it more difficult for women to obtain loans, for instance by requiring fixed collateral.

Study reports should aim to provide two or three good practice examples and a near equal number of not-so-good examples.

1. Financial access of MSMEs

This section provides the key analysis of access to finance and, in particular, the barriers to such access. Subsequent sections of the framework are more detailed and provide a look at specific types of institutions and whether they are working or not.

Access to finance can be gauged from two main sources: i) country or survey data, and ii) from interviews and discussions with enterprises, financial institutions and experts. Both sources should be used when available. If data are lacking, the interview/discussion approach must be relied upon as the main source.

MSME definition

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