

Trends and Challenges in MSME Development and Access to Finance in South Asia

Key Findings from Asia SME Monitor 2021–Volume I

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Shigehiro Shinozaki

Senior Economist

Economic Research and Regional Cooperation Department

Asian Development Bank

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Concept

- Outline

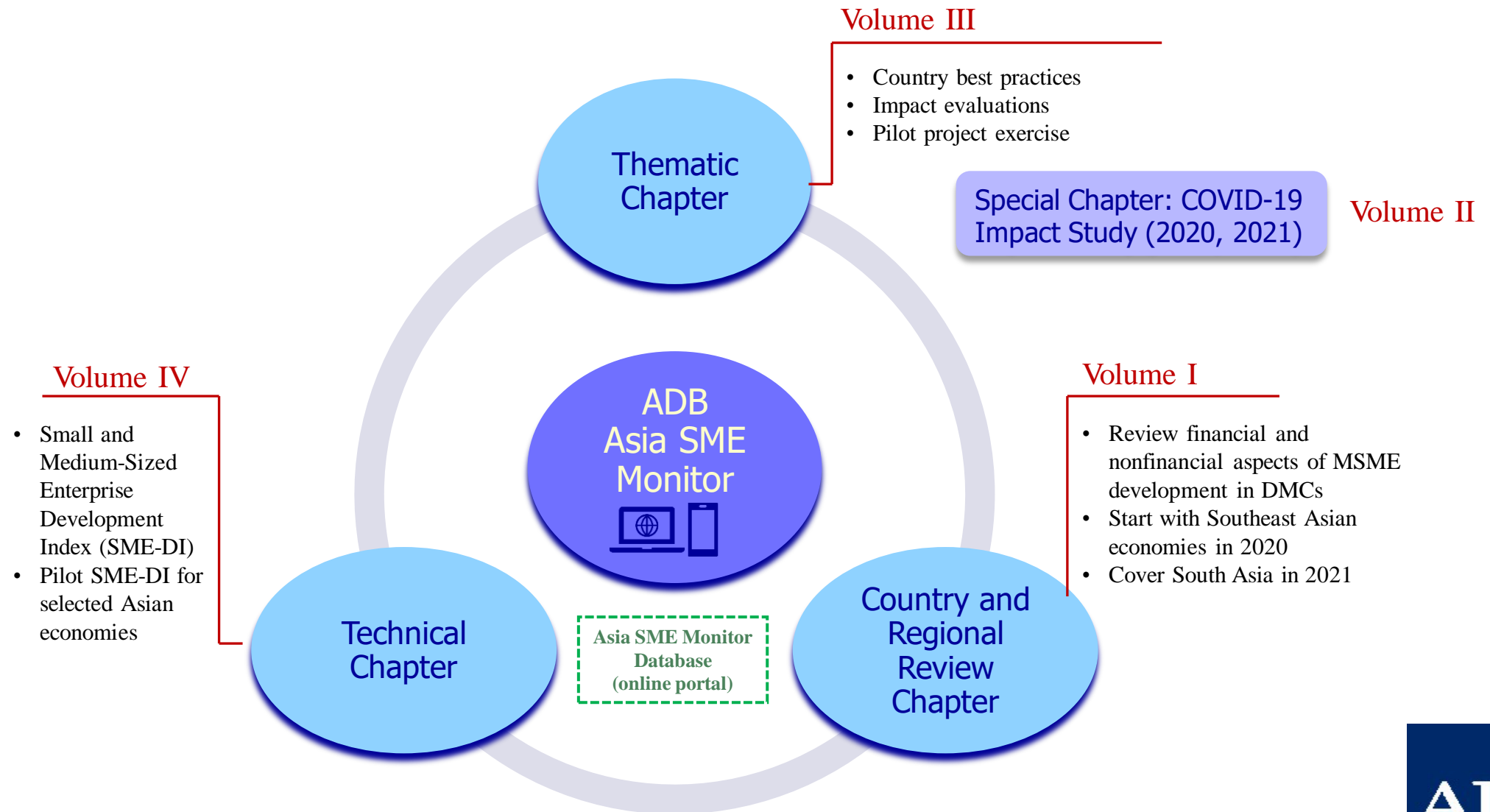
- ✓ A knowledge sharing product developed as a key resource for MSME development policies in Asia and the Pacific.
- ✓ An annual periodical that reviews financial and nonfinancial conditions of MSMEs at country and regional levels.
- ✓ Support DMC governments in promoting evidence-based policy design on MSME development.

- Objectives

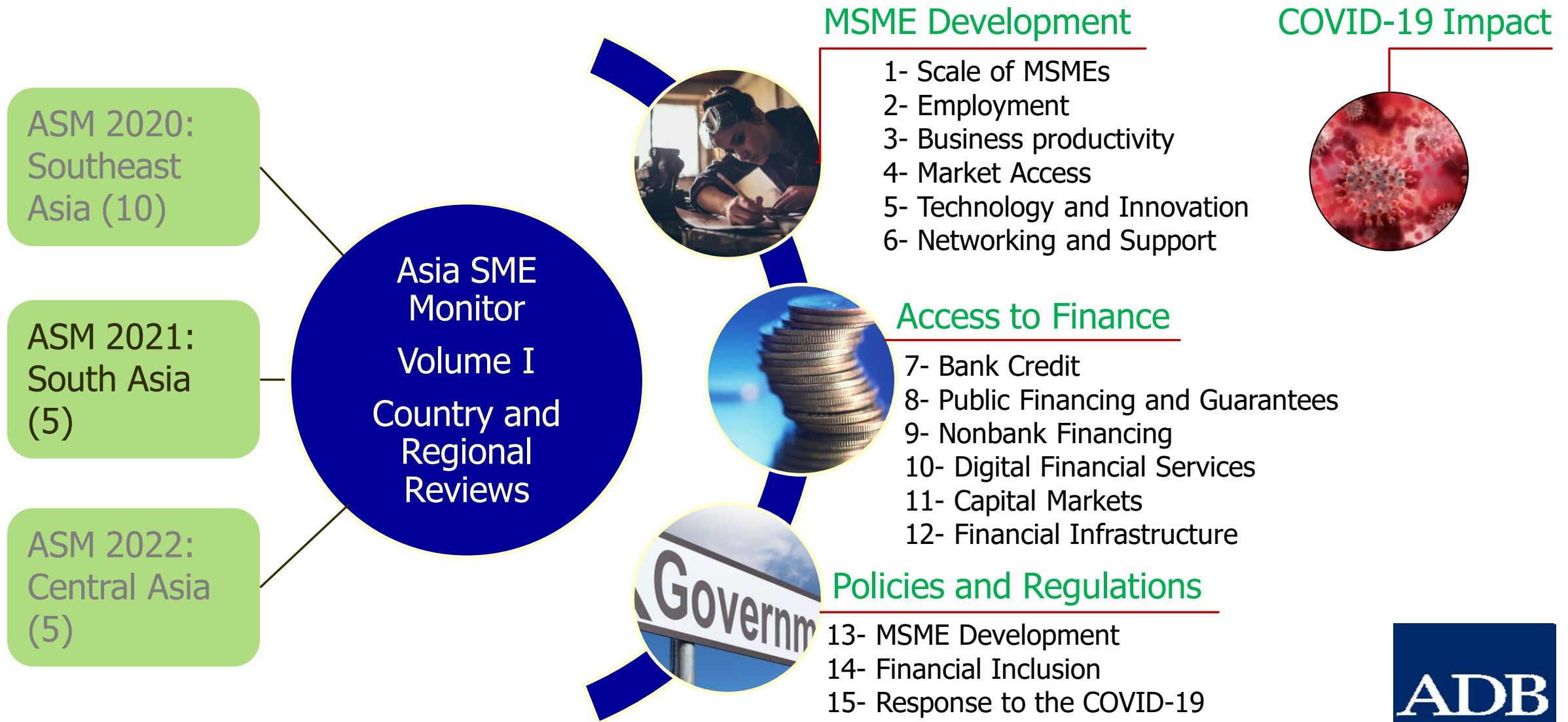
- ✓ Provide in-depth analyses on MSME sector, finance, and policy interventions.
- ✓ Exchange country best practices and experiences on MSME development.
- ✓ Present timely comparative financial and nonfinancial data on MSMEs.



What data are delivered?



What data are delivered?



COVID-19 Impact on MSMEs

- A series of COVID-19 impact studies in South Asia suggest that lockdowns seriously limited MSMEs' business activities or shutdown, job losses, immediately reduced incomes and profits, especially for smaller firms engaged in personal-contact based services.
- The recovery has been uneven across sectors and groups. Groups hit hard were:
 - 1) Textile/accessories, clothing/tailoring shops, beauty parlors, auto parts/machineries, steel/sheets, and leather/footwear (Bangladesh).
 - 2) Hospitality and tourism, automotive and aviation sectors, and employment in informal MSMEs (India).
 - 3) Cottage industries (hit hardest) and education/communication/real estate/rental services (slowest recovery) (Nepal).
 - 4) Accommodation/food services, tourism, handicraft trade, gems/jewelry shops, and construction (Sri Lanka).
 - 5) Women-owned firms (Bangladesh).
- Groups less damaged or benefitted from lockdowns were:
 - 1) Electricity/gas/water, agriculture/forestry/fisheries, manufacturing, and trade (relatively quick recovery) (Nepal).
 - 2) Processed food industry, and garment industry producing face masks and safety/protective clothing (Sri Lanka).
- Challenges:
 - 1) No/little demand for non-essential products and services (continues sales/revenue drop).
 - 2) A lack of funds to maintain or reopen businesses and ensure employment (layoffs).
 - 3) High reliance on informal financing sources (especially women-owned firm).
 - 4) Low awareness of government MSME assistance programs.



MSME Development

MSMEs in South Asia, 2020

	<i>Percentage share</i>	<i>Compound annual growth</i>
• Number of MSMEs to total enterprises	99.6%	n/a,
• MSME employees to total employees	76.6%	n/a,
• MSME contribution to national GDP	33.9%	n/a,
• MSME exports to total export value*	47.0%	2.2%

GDP = gross domestic product; fiscal year = FY; MSME = micro, small, and medium-sized enterprise.

* India for FY2013–FY2020.

Reporting countries only. Data based on latest available data until 2020.

MSMEs in Southeast Asia, 2010–2020

	<i>Percentage share</i>	<i>Compound annual growth</i>
• Number of MSMEs to total enterprises	97.6%	+0.2%
• MSME employees to total employees	67.0%	-0.5%
• MSME contribution to national GDP	40.5%	+0.5%
• MSME export to total export value	19.2%	-4.6%

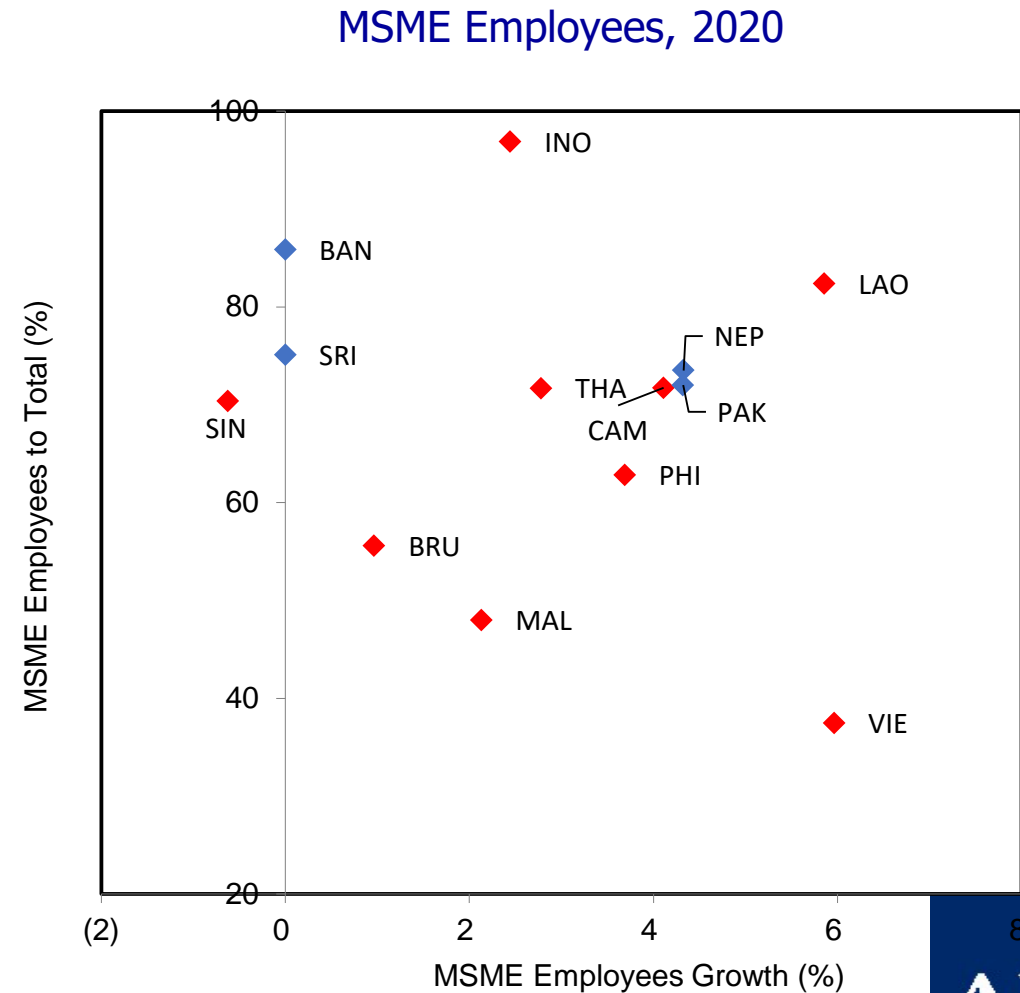
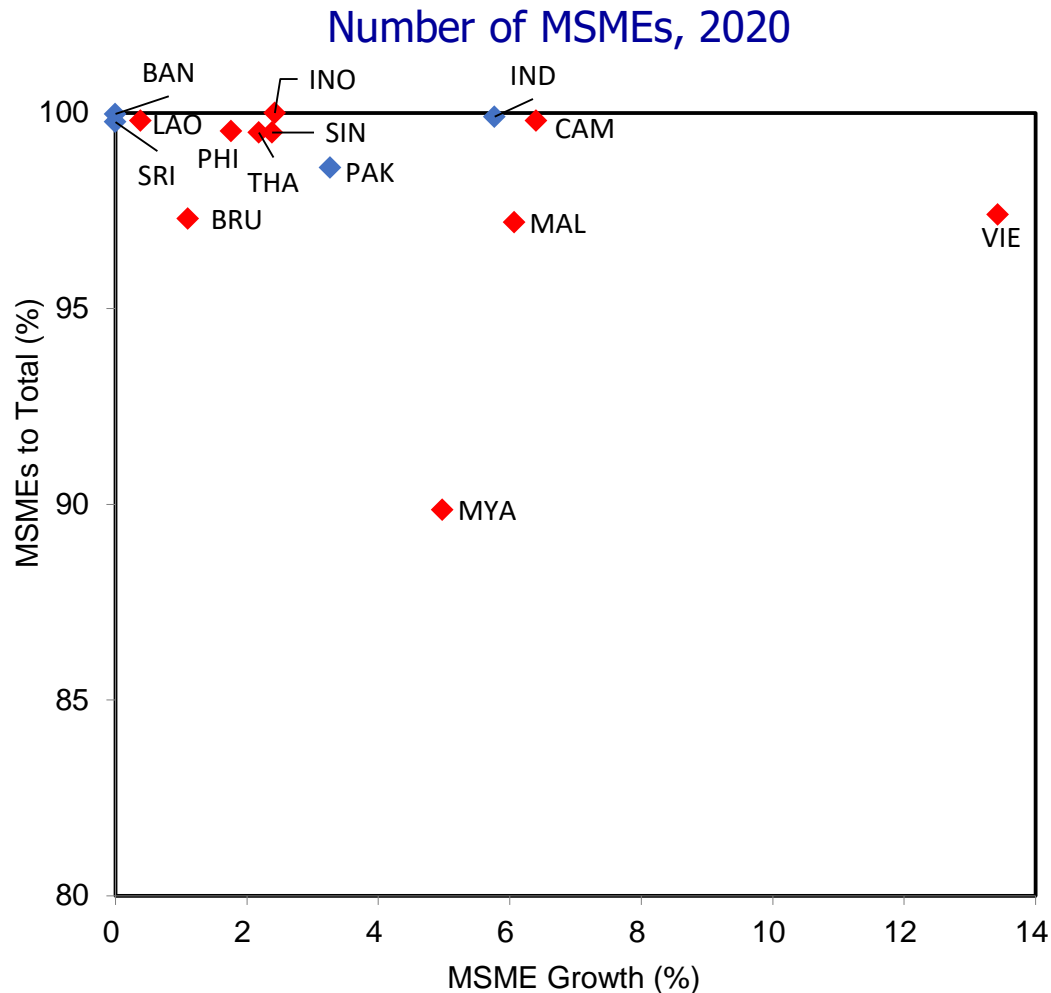
GDP = gross domestic product; MSME = micro, small, and medium-sized enterprise.

Reporting countries only.

Source: ADB Asia SME Monitor 2021 database.



South Asian economies have been recovering well from the pandemic, but risks remain; revitalizing MSMEs is key to building a resilient recovery.

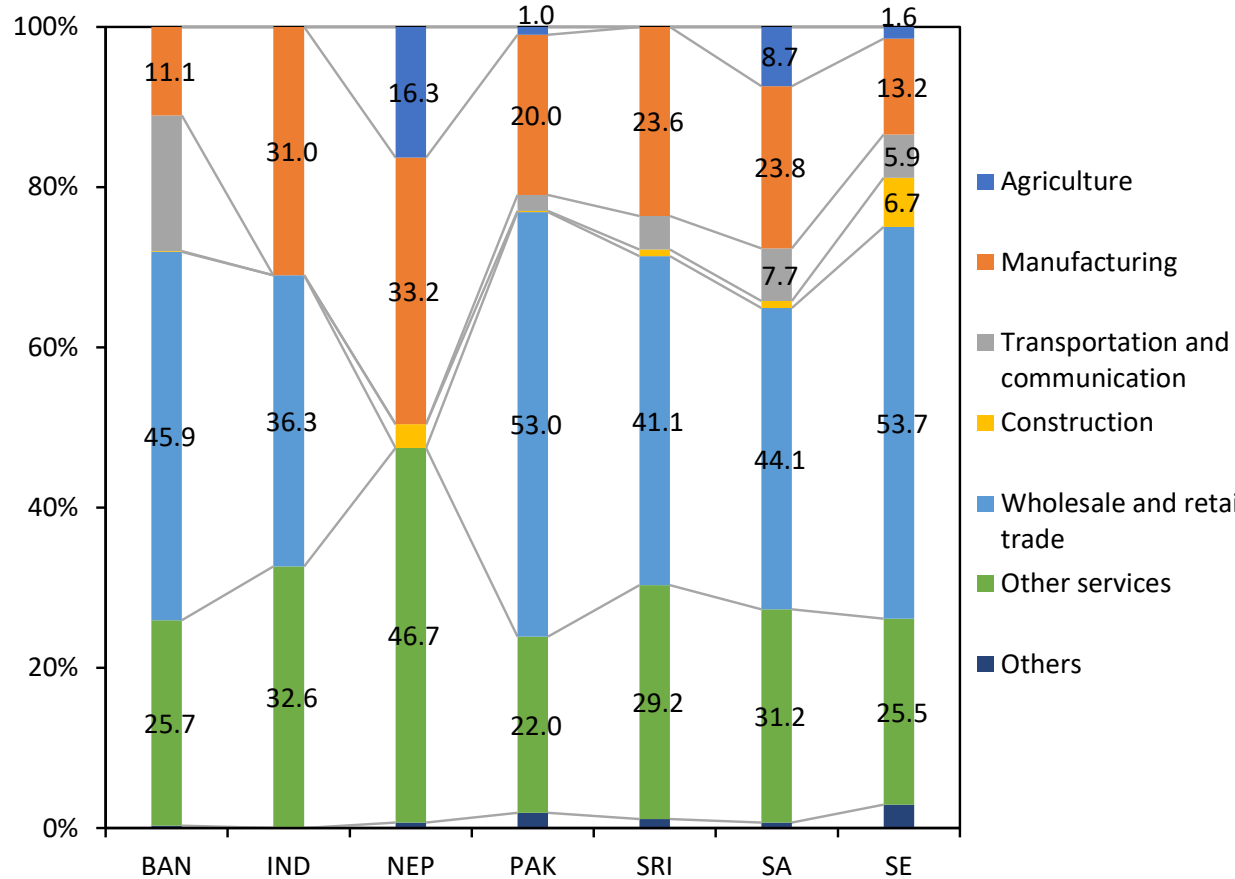


BAN = Bangladesh; BRU = Brunei Darussalam; CAM = Cambodia; IND = India; INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; NEP = Nepal; PAK = Pakistan; PHI = Philippines; SIN = Singapore; SRI = Sri Lanka; THA = Thailand; VIE = Viet Nam. Data refer to the latest available data until 2020.
 Source: ADB Asia SME Monitor 2021 database.

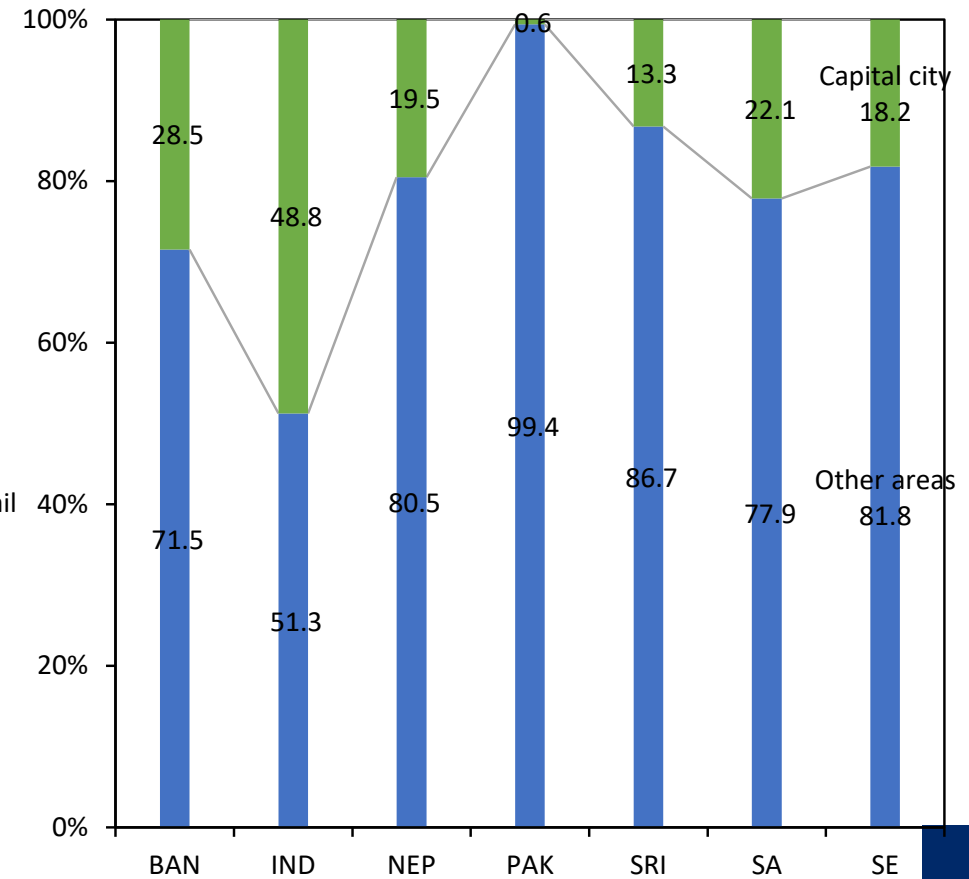


MSMEs largely supply domestic markets, with many engaged in services and informal. Fostering innovative rural-based businesses is key to strengthen MSME growth and dynamics.

MSMEs by Sector, 2020



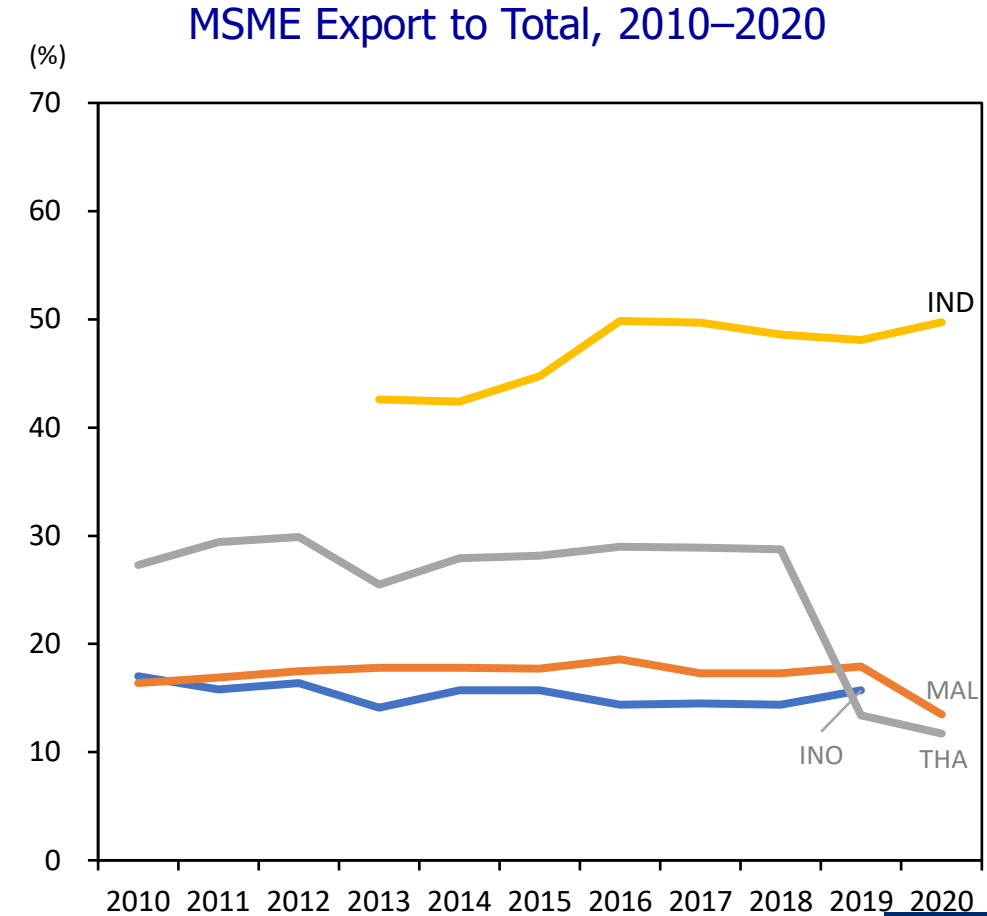
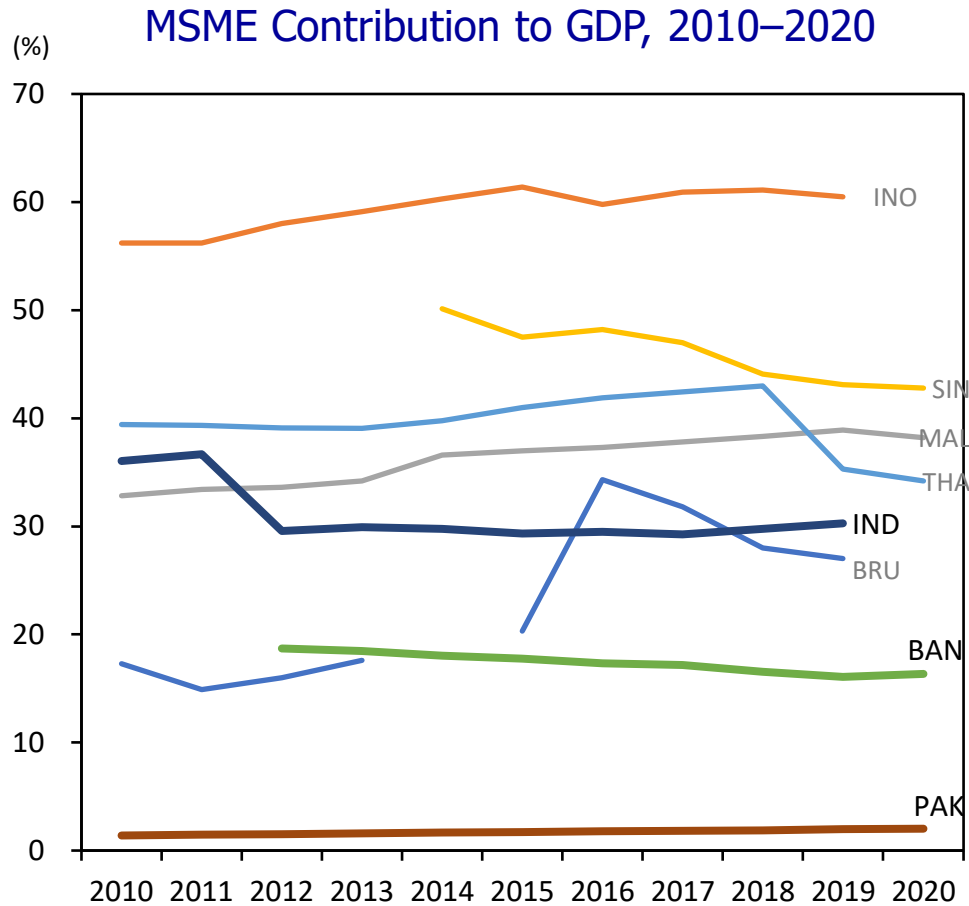
MSMEs by Region, 2020



BAN = Bangladesh; IND = India; MSME = micro, small, and medium-sized enterprise; NEP = Nepal; PAK = Pakistan; SA = South Asia; SE = Southeast Asia; SRI = Sri Lanka. Data refer to the latest available data until 2020. SA and SE refer to average of reporting countries. Source: ADB Asia SME Monitor 2021 database.



Formalizing MSMEs and connecting to international markets would boost national productivity.

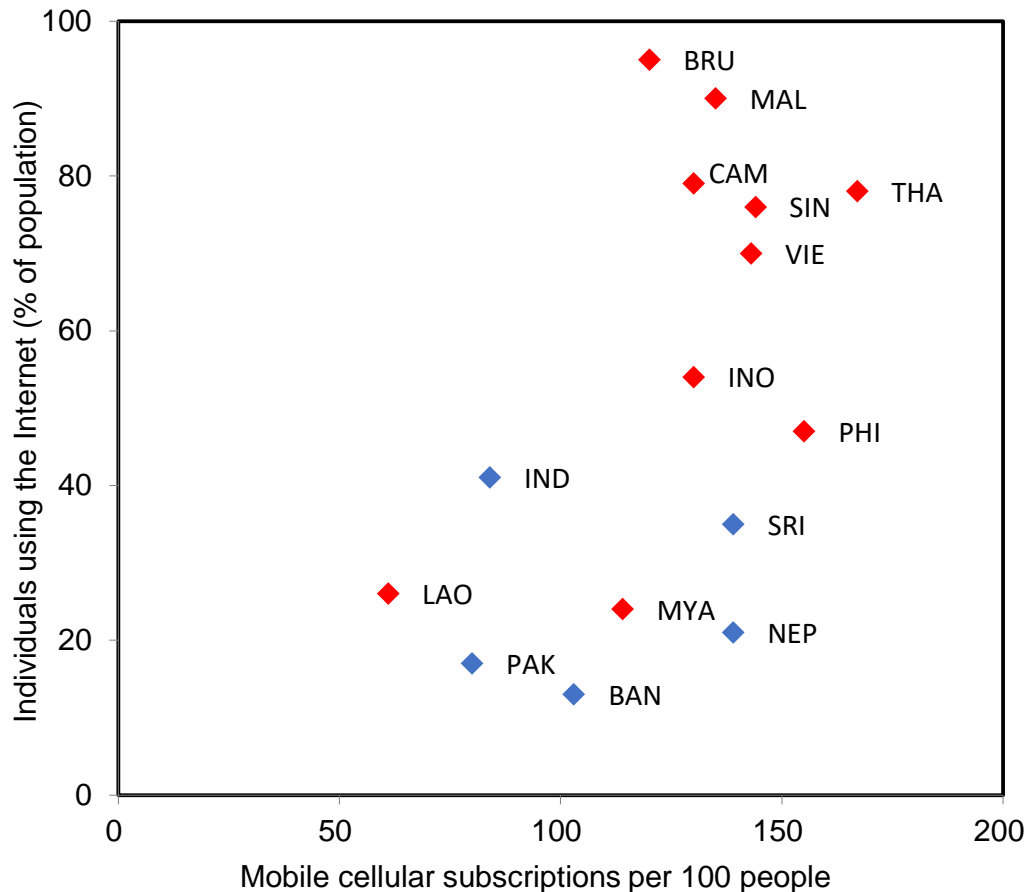


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 Source: ADB Asia SME Monitor 2021 database.



Increasing digital penetration and e-commerce have rapidly expanded MSME market reach.

Mobile and Internet Penetration, 2020



BAN = Bangladesh; BRU = Brunei Darussalam; CAM = Cambodia; IND = India; INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; NEP = Nepal; PAK = Pakistan; PHI = Philippines; SIN = Singapore; SRI = Sri Lanka; THA = Thailand; VIE = Viet Nam.
Source: ADB Asia SME Monitor 2021 database.

- MSMEs traditionally are low-tech. Yet there are increasing number of technology-based MSMEs and start-ups as digital penetration increases across South Asia.
- More inclusive internet penetration and logistics is needed to further develop domestic e-commerce for rural MSMEs.
- Youth and women entrepreneurs have large potential to lead the digital industry.

Networking and support

- National chambers of commerce support MSME development through facilitating business linkages, offering skills training, and lobbying with governments on MSME policy formulation and implementation.



Access to Finance

MSMEs in South Asia, 2015–2020		
<i>Bank credit</i>	<i>Percentage share</i>	<i>Compound annual growth</i>
• MSME loans to national GDP*	7.0%	-0.04%
• MSME loans to total bank loans	14.8%	-0.7%
• MSME NPLs to total MSME loans	13.6%	-6.9%
<i>Nonbank and market-based finance</i>		
• NBF financing to national GDP	3.2%	+4.9%
• NBF financing to total bank loans	6.5%	-2.8%
• NBF NPF to total financing	5.6%	+9.7%
• MSME market capitalization to GDP**	18.2%	-4.2%

GDP = gross domestic product; MSME = micro, small, and medium-sized enterprise; NBF = nonbank finance institution; NPF = nonperforming financing; NPL = nonperforming loan.
 * 2015–2019. ** Data include primary market data if MSME market data is unavailable; average percentage of available markets. Reporting countries only.

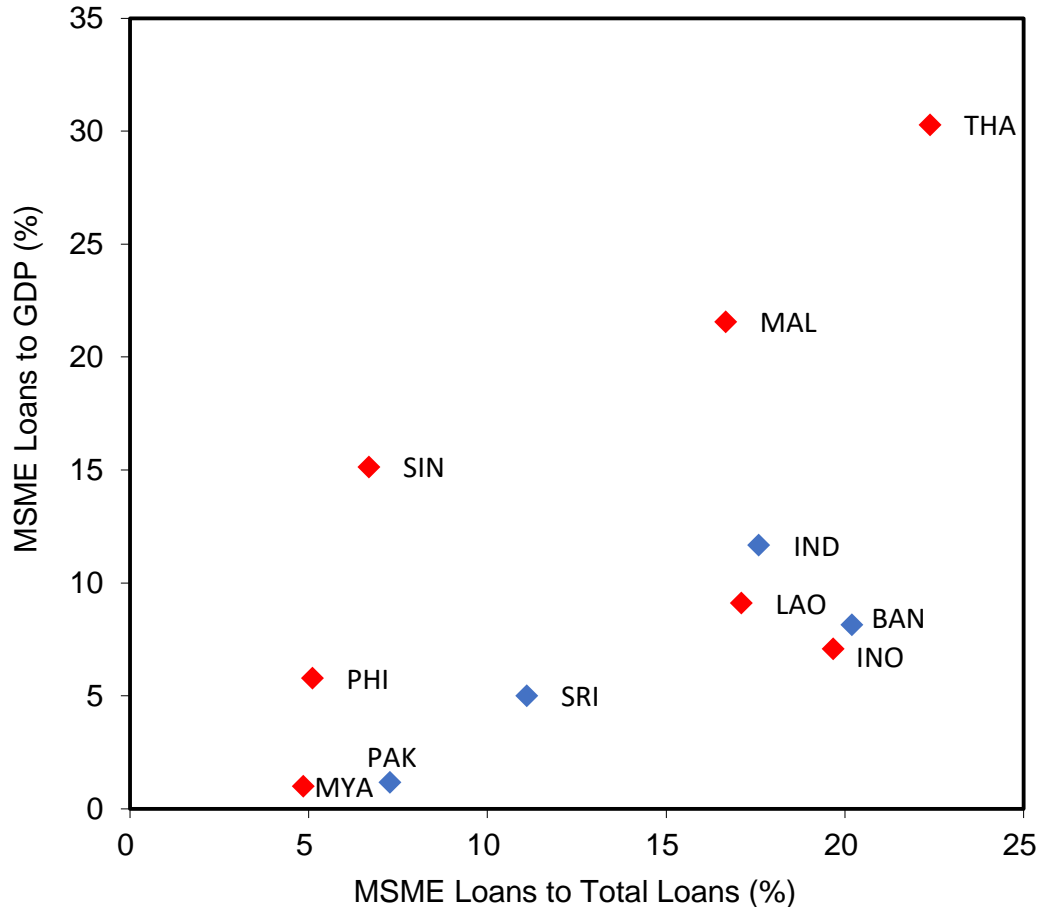
MSMEs in Southeast Asia, 2010–2020		
<i>Bank credit</i>	<i>Percentage share</i>	<i>Compound annual growth</i>
• MSME loans to national GDP	14.1%	-3.3%
• MSME loans to total bank loans	16.4%	-0.6%
• MSME NPLs to total MSME loans	4.2%	-0.9%
<i>Nonbank and market-based finance</i>		
• NBF financing to national GDP	4.0%	+10.2%
• NBF financing to total bank loans	8.3%	-3.8%
• NBF NPF to total financing	0.9%	+6.2%
• MSME market capitalization to GDP*	7.7%	+0.5%

GDP = gross domestic product; MSME = micro, small, and medium-sized enterprise; NBF = nonbank finance institution; NPF = nonperforming financing; NPL = nonperforming loan.
 * 2012–2020. Data include primary market data if MSME market data is unavailable; average percentage of available markets. Reporting countries only.
 Source: ADB Asia SME Monitor 2021 database.

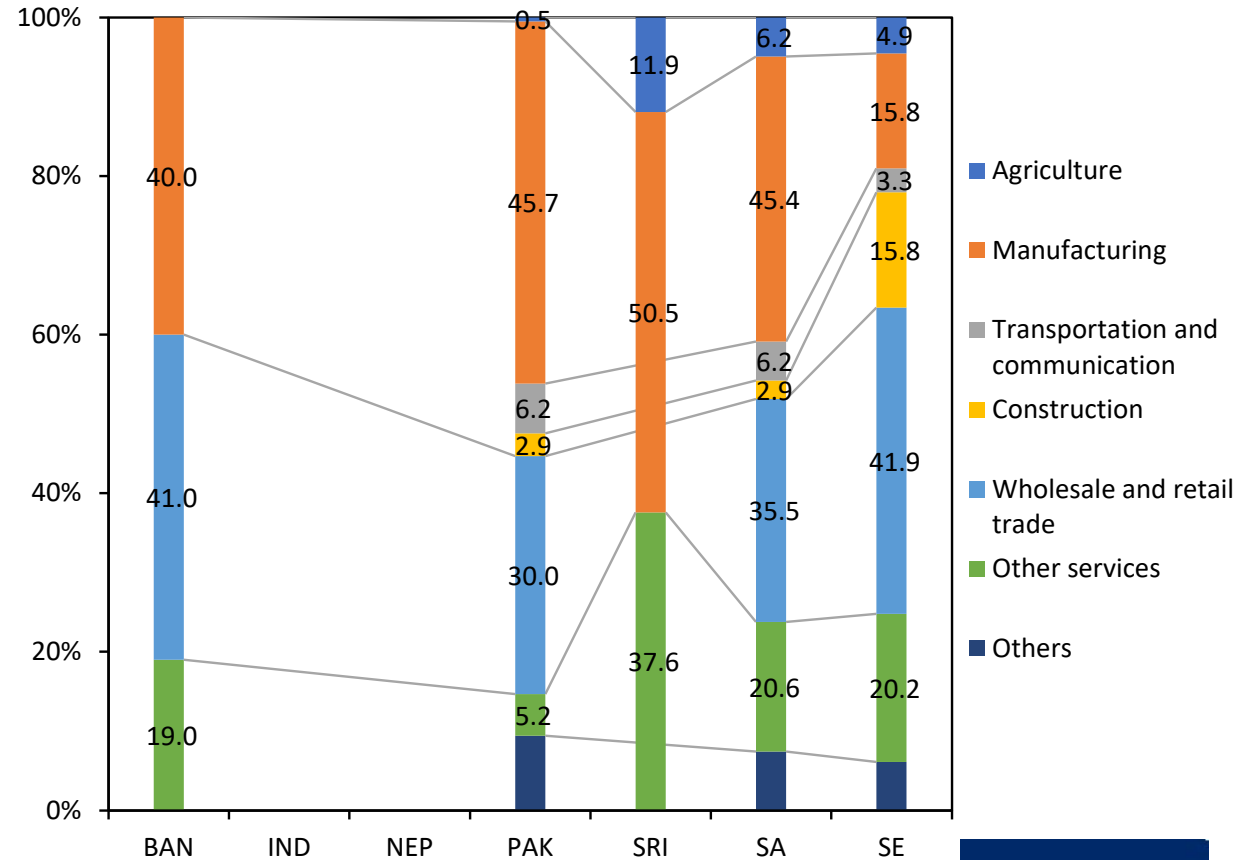


MSME credit market remains small but is growing, supported by government assistance. The majority went to the manufacturing.

MSME Loans Outstanding, 2020



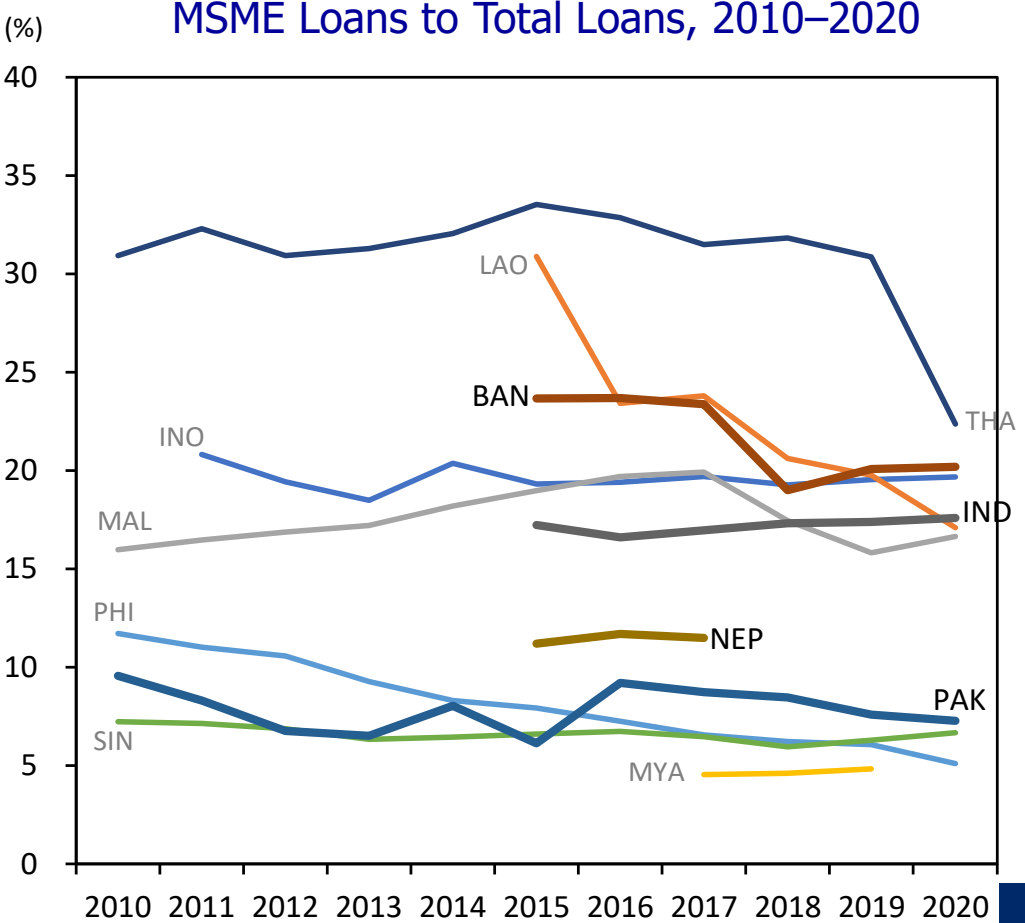
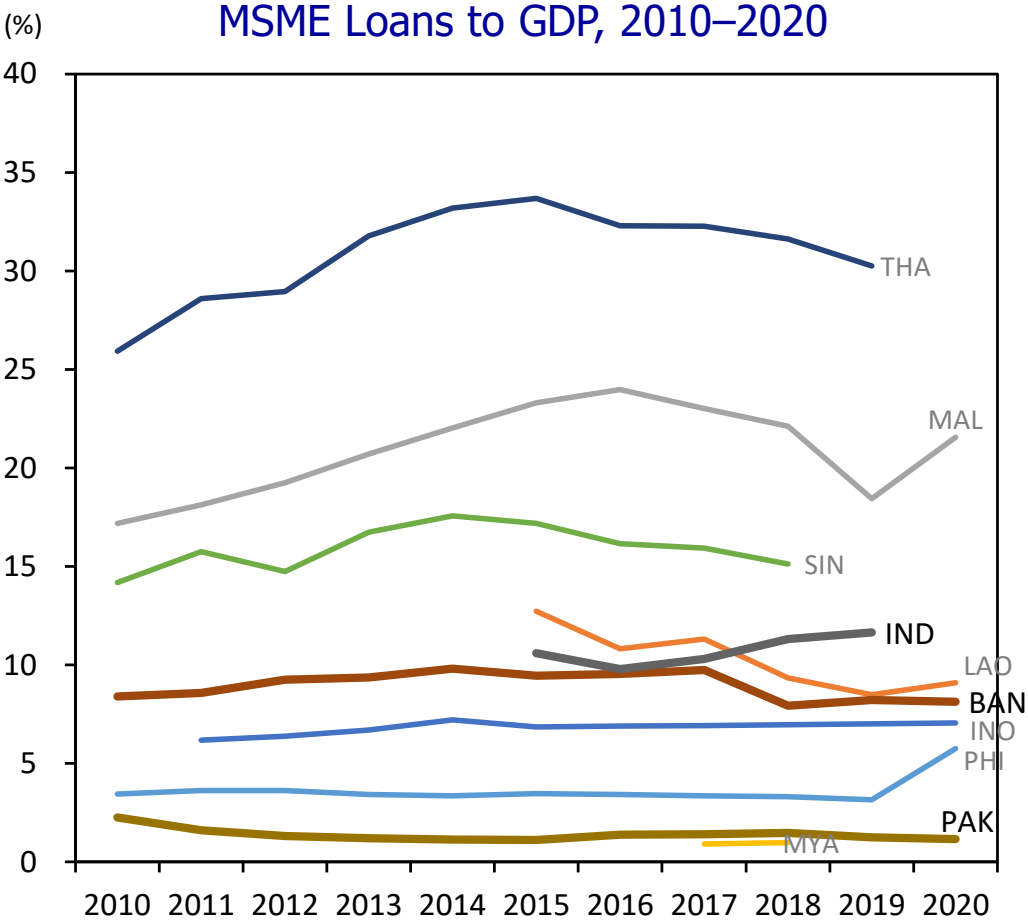
MSME Loans by Sector, 2020



BAN = Bangladesh; IND = India; INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; PAK = Pakistan; PHI = Philippines; SA = South Asia; SE = Southeast Asia; SIN = Singapore; SRI = Sri Lanka; THA = Thailand.
 Data refer to the latest available data until 2020. SA and SE refer to average of reporting countries.
 Source: ADB Asia SME Monitor 2021 database.



The shares of MSME loans to GDP and total bank loans have diminished over time in South Asia, although the level varies by country.

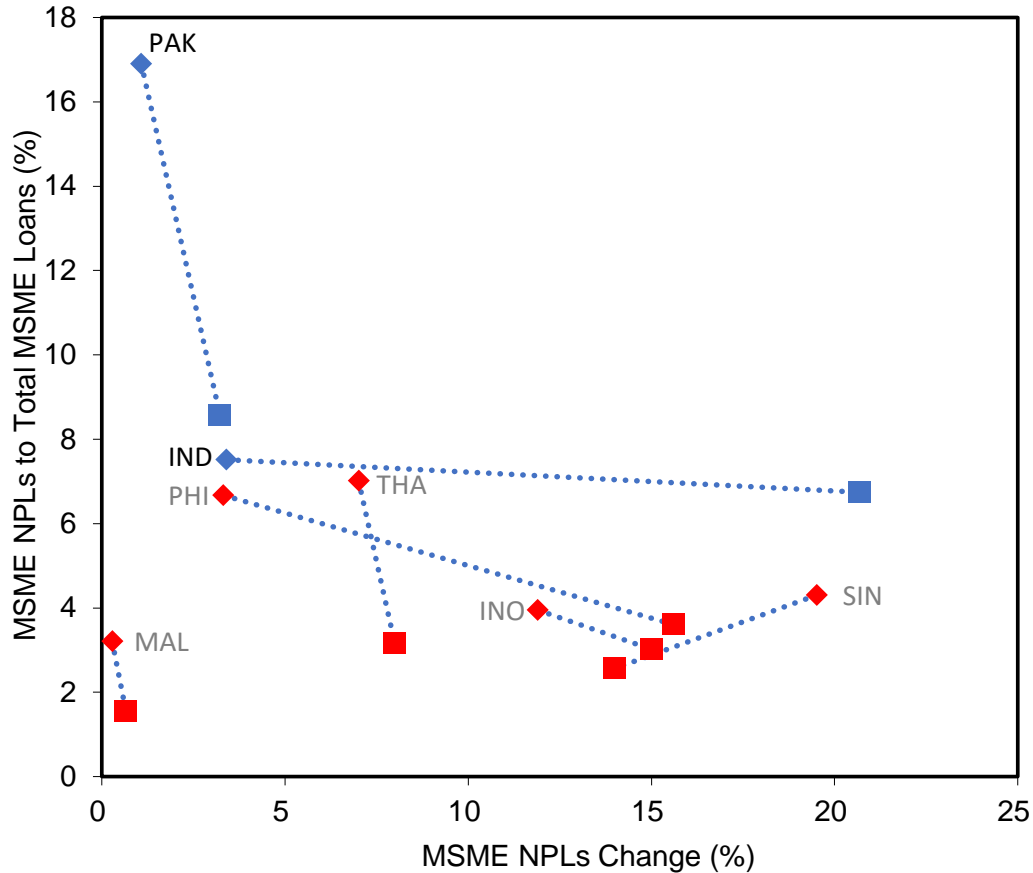


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 Source: ADB Asia SME Monitor 2021 database.

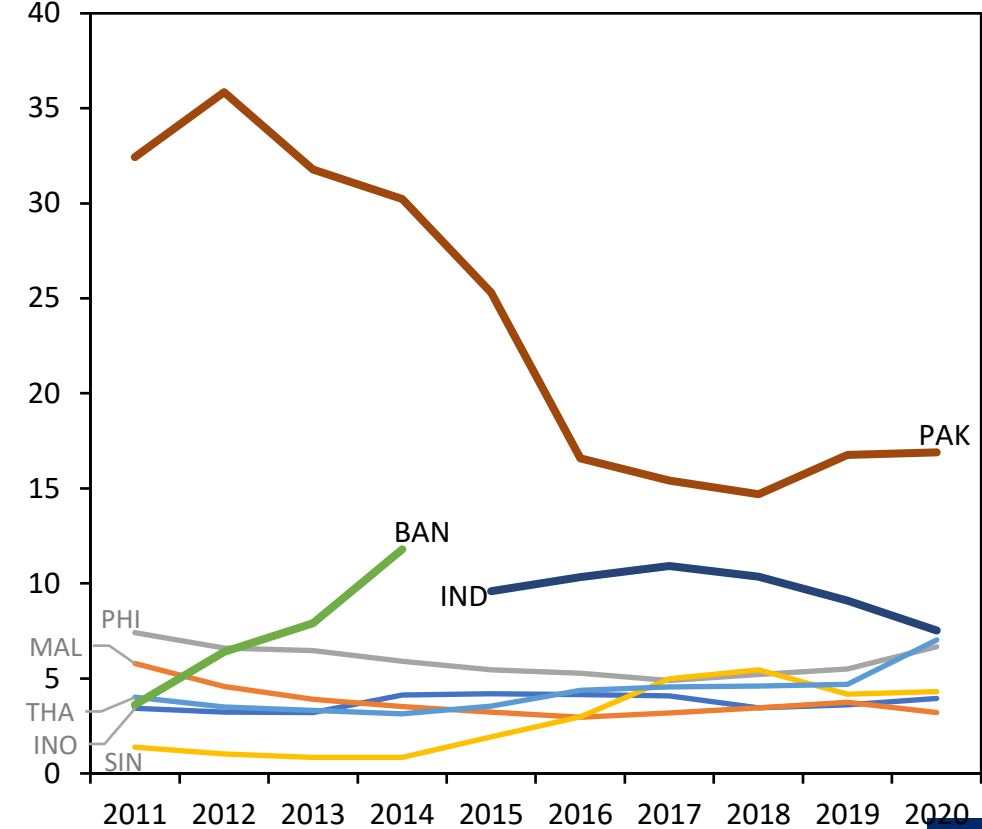


High nonperforming MSME loans remain a challenge in South Asia, although ratios have improved over time.

MSME NPLs, 2020



MSME NPLs to Total MSME Loans, 2011–2020



BAN = Bangladesh; IND = India; INO = Indonesia; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; PAK = Pakistan; PHI = Philippines; SIN = Singapore; THA = Thailand.

◆ = MSME NPLs, ■ = banks' gross NPLs. NPL change (%) refers to compound annual change during 2011–2020.

Source: ADB Asia SME Monitor 2021 database.



Governments offer financial assistance to MSMEs to supplement their financing needs. They have been actively used as emergency assistance tools to MSMEs hurt by the pandemic.

Assistance and Infrastructure for MSME Access to Finance

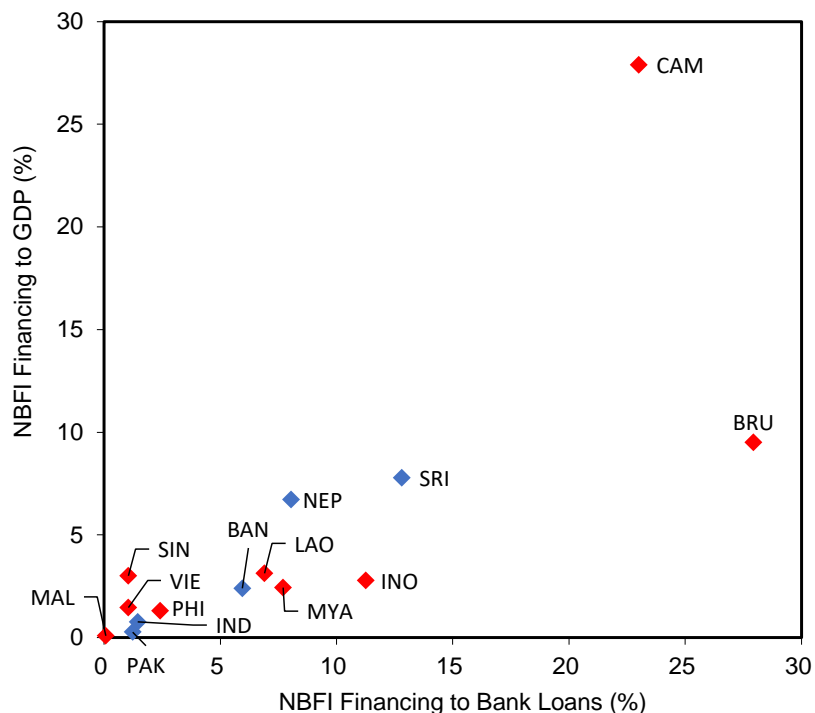
Item	Bank Credit						Public Finance			Emergency Assistance (Response to COVID-19)					
	Refinancing facilities to banks	Credit guarantees/ credit risk sharing	Mandatory lending to MSMEs	Interest rate subsidy	Credit bureaus/ credit information system	Secured transaction legal system	Specialized bank for MSMEs	Direct lending/ special funds/ soft loans	Focused groups financing	Liquidity support for financial institutions/capital injection	Debt restructuring/ deferral of debt payments	Relaxed lending conditions/ interest rate reduction	New lending to MSMEs/ emergency refinancing facility	Special credit guarantees	Regulatory forbearance
Lower-middle-income economies	BAN	√	(CGF planned)	(lending target)	√	√	(Collateral Registry Bureau planned)		√	√	√	√	√	√	√
	IND	√ (MUDRA)	√	(lending target)	√	√	√	√ (SIDBI)	√		√	√	√	√	√
	NEP	√	√	√	√	√	√		√	√ (agriculture, women)	√	√	√		√
	PAK	√	√		√	√	√	√ (SME Bank)	√	√ (women)	√	√	√	√	√
	SRI	√	(NCGI planned)		√	√	√		√	√ (youth, women, priority sectors)	√	√	√	√	√

BAN = Bangladesh; COVID-19 = coronavirus disease; CGF = Credit Guarantee Fund; IND = India; MSME = micro, small, and medium-sized enterprise; MUDRA = Micro Units Development and Refinance Agency (India); NCGI = National Credit Guarantee Institution; NEP = Nepal; PAK = Pakistan; SIDBI = Small Industries Development Bank of India; SME = small and medium-sized enterprise; SRI = Sri Lanka. Source: ADB Asia SME Monitor 2021 database.

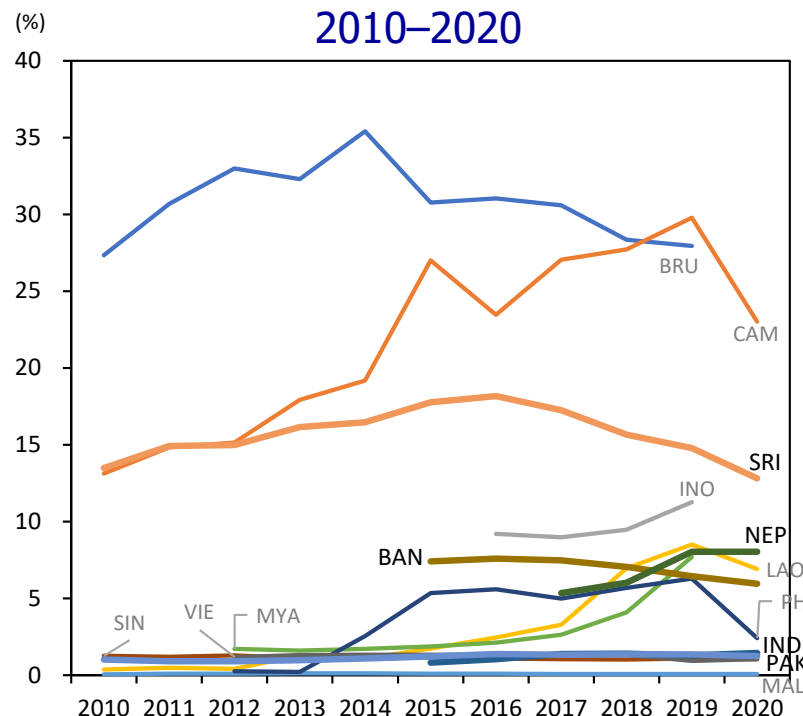


The nonbank finance industry supports MSME working capital needs; microfinance institutions support rural MSMEs and small entrepreneurs, yet their nonperforming loans are rising.

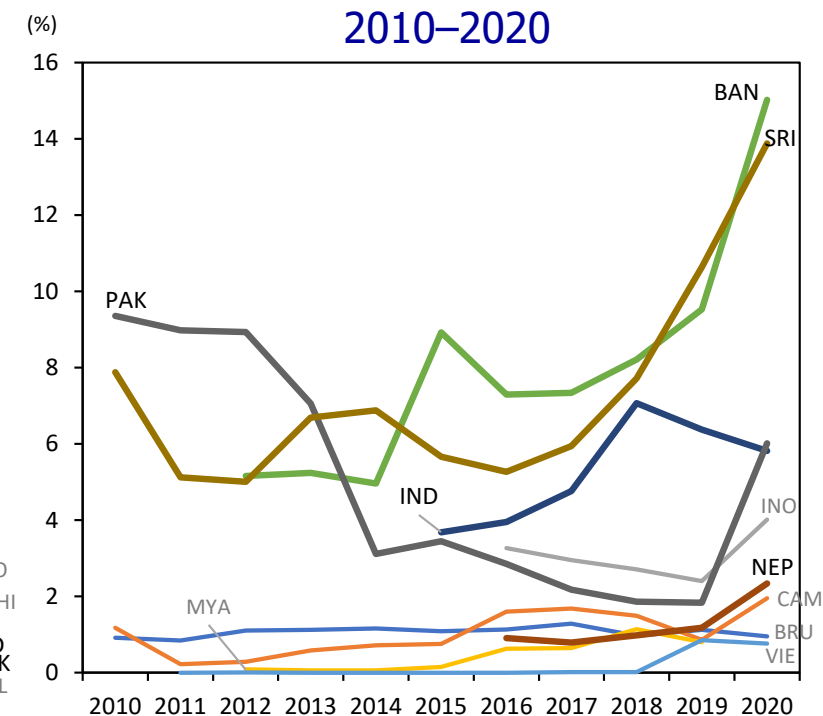
Nonbank Financing, 2020



NBFI Financing to Bank Loans, 2010–2020



NBFI NPF to Total Financing, 2010–2020



BAN = Bangladesh, BRU = Brunei Darussalam, CAM = Cambodia, IND = India, INO = Indonesia, LAO = Lao PDR, MAL = Malaysia, MYA = Myanmar, NBFI = nonbank finance institution, NEP = Nepal, NPF = nonperforming financing; PAK = Pakistan, PHI = Philippines, SIN = Singapore, SRI = Sri Lanka, VIE = Viet Nam.

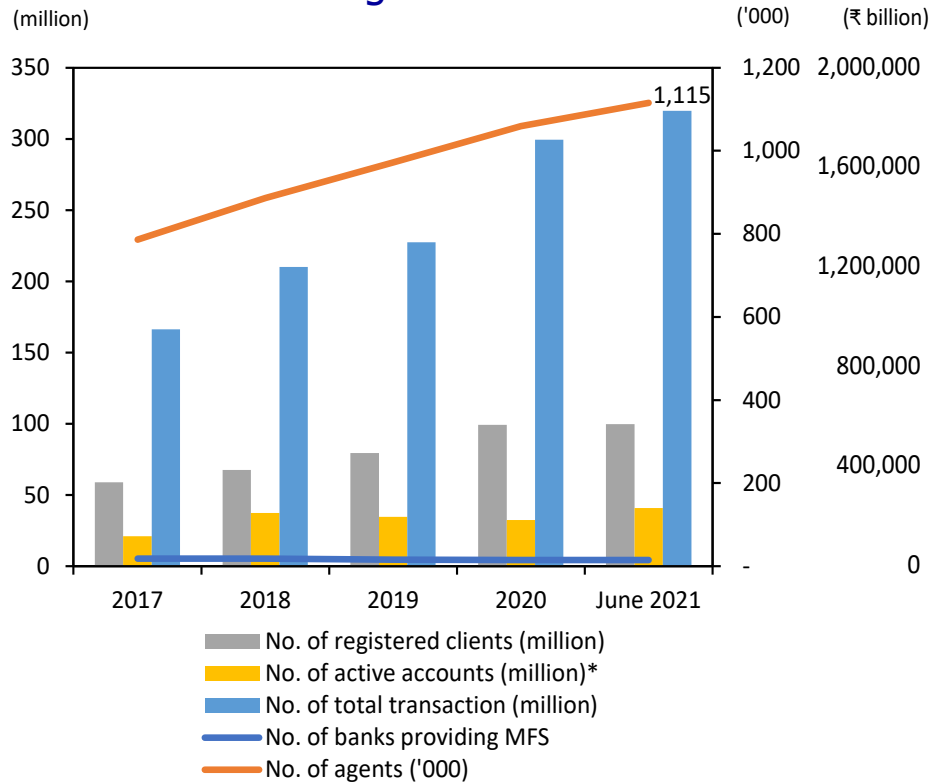
Note: NBFI data varies by country: Bangladesh (nonbank finance institutions regulated by Bangladesh Bank); Brunei Darussalam (finance companies and pawnbrokers); Cambodia (microfinance institutions and leasing companies); India (nonbank finance institutions regulated by Reserve Bank of India; MSME financing only); Indonesia (finance companies, microfinance institutions, and government pawnshops); Lao PDR (microfinance institutions, pawnshops, and leasing companies); Malaysia (private equity, venture capital, factoring, and leasing companies); Myanmar (microfinance institutions); Nepal (microfinance institutions); Pakistan (microfinance institutions and leasing companies); Philippines (credit unions and cooperatives [2015–2018], pawnshops [2009–2018], and nonstock savings and loans associations [NSSLAs; 2014–2020]); Singapore (finance companies); Sri Lanka: (nonbank finance institutions regulated by Central Bank of Sri Lanka); Viet Nam (People's Credit Funds and microfinance institutions).

Source: ADB Asia SME Monitor 2021 database.



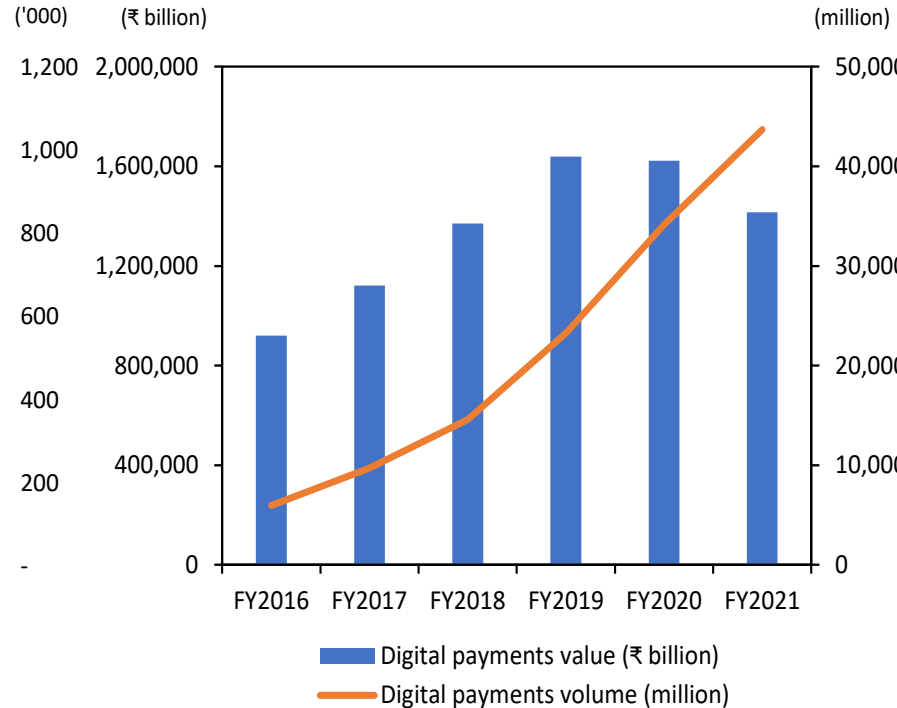
Mobile financial services have grown rapidly, supported by national digital infrastructure; but its limited use requires greater digital literacy and skills development.

Mobile Financial Services – Bangladesh

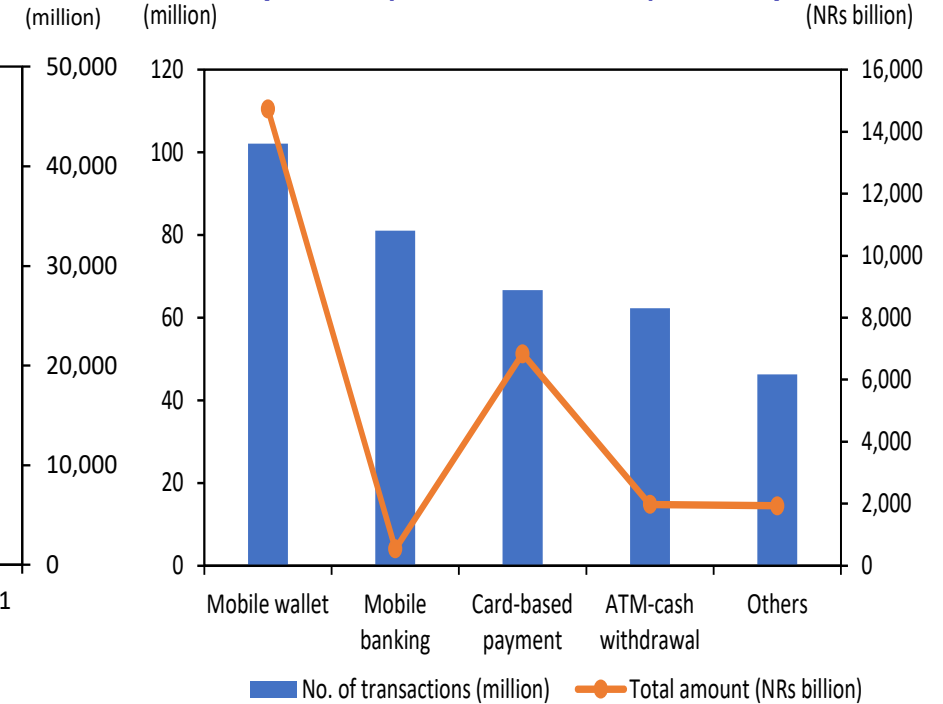


Source: ADB Asia SME Monitor 2021 database.

Digital Transactions – India

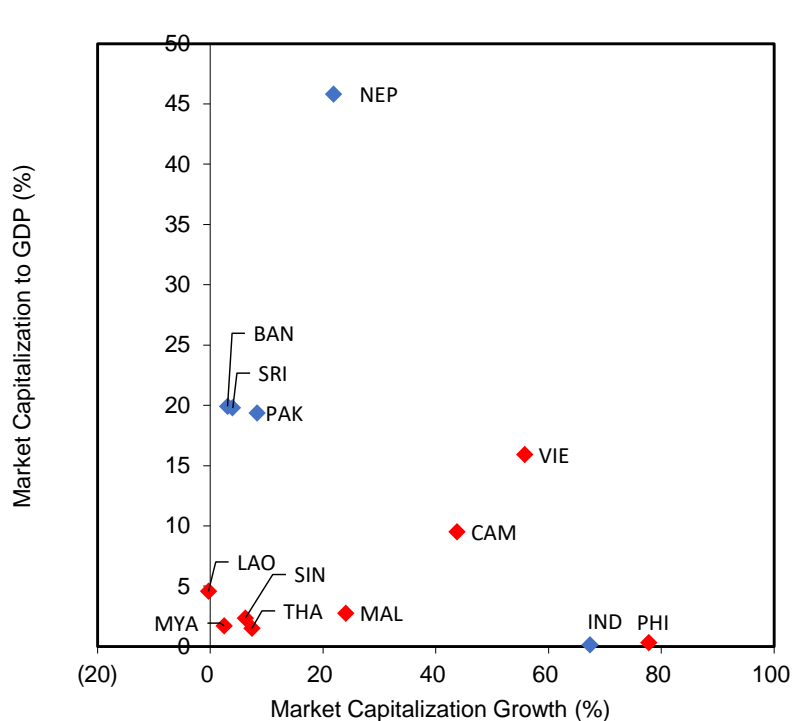


Electronic Banking – Nepal (Mid-July 2020 to Mid-Apr 2021)

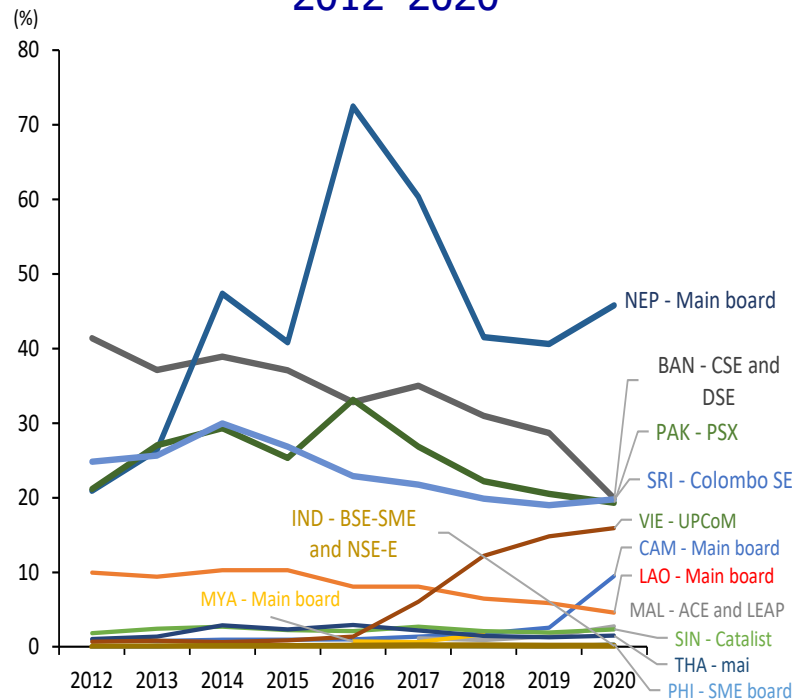


Specialized SME equity markets have emerged as growth capital financing venues for eligible MSMEs in South Asia; yet there are few issuers and investors.

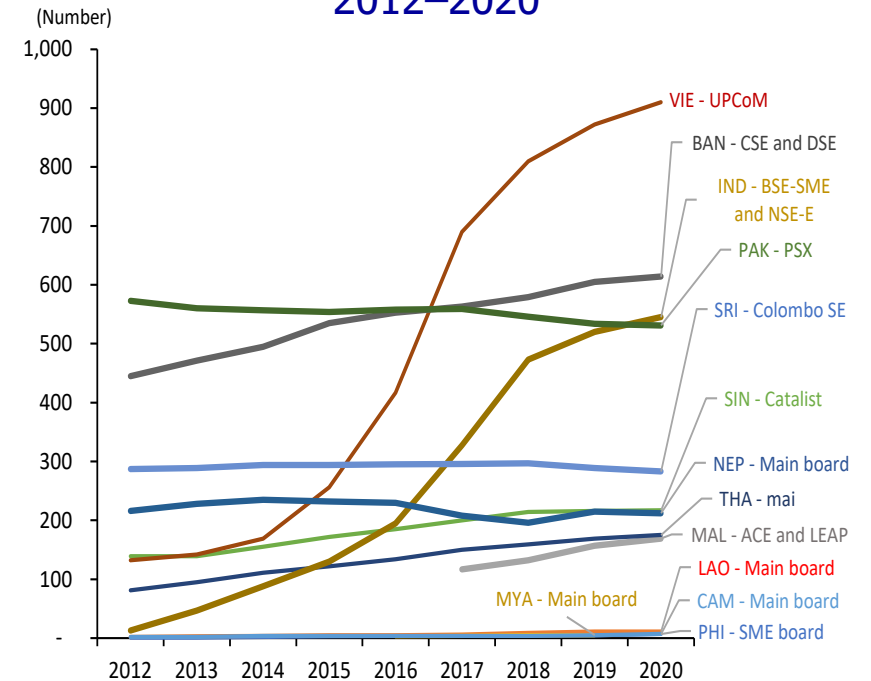
Market Capitalization, 2020



Market Capitalization to GDP, 2012–2020



Number of Listed Companies, 2012–2020



BAN = Bangladesh; BSE = Bombay Stock Exchange; BSE-SME = BSE SME Exchange; CAM = Cambodia; Colombo SE = Colombo Stock Exchange; CSE = Chittagong Stock Exchange; DSE = Dhaka Stock Exchange; GDP = gross domestic product; IND = India; INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; NBFII = nonbank finance institution; NEP = Nepal; NSE = National Stock Exchange; NSE-E = NSE Emerge; PAK = Pakistan; PHI = Philippines; PSX = Pakistan Stock Exchange; SIN = Singapore; SRI = Sri Lanka; THA = Thailand; VIE = Viet Nam.

Notes: Data include primary market data if MSME market data is unavailable. For left-hand side Figure, data refer to the latest available data until 2020.

Source: ADB Asia SME Monitor 2021 database.



Policies and Regulations

MSME Development

- Governments have comprehensive long-term MSME policies in line with their national development strategies in South Asia.
- Support areas: a conducive business environment, access to markets and finance, skills development, business cluster development, use of technology, and focused groups such as youth and women entrepreneurs, start-ups, agribusiness, and MSME exporters (participation in global value chains).
- Cottage industries (small manufacturing and home businesses) are critical for support.
- MSMEs are defined by national policy frameworks or stipulated by law, generating a national single definition. But various MSME definitions are substantially used in several organizations.

MSME Policies and Act in South Asia

- SME Policy 2019, Bangladesh
- Micro, Small and Medium Enterprise Development Act of 2006, India
- Industrial Promotion Policy 2011, Nepal
- National SME Policy Action Plan 2020 (for SME Policy 2019), Pakistan
- National Policy Framework for Small and Medium Enterprise Development 2015, Sri Lanka

Source: ADB Asia SME Monitor 2021 database.

MSME Definitions in South Asia

Country	Category	Definition							Remarks
		Employee	Asset	Turnover	Capital	By Sector	Others	Legal Basis	
Bangladesh	Cottage, micro, small, and medium-sized firm	✓	✓			✓			Defined by the National Industrial Policy 2016.
		✓	✓	✓		✓			Utilized by central bank.
India	Micro, small, and medium-sized firm			✓				✓	Micro, Small and Medium Enterprise Development Act, 2006 (amended June 2020).
Nepal	Cottage, micro, small, and medium-sized firm	✓	✓	✓				✓	Industrial Enterprises Act, 2020
Pakistan	Start-up, small, and medium-sized firm			✓				✓	Defined by the National SME Policy 2020.
	Micro, small, and medium-sized firm	✓		✓					Utilized by central bank.
	Small firm	✓		✓	✓			✓	Utilized by Federal Board of Revenue.
Sri Lanka	Micro, small, and medium-sized firm	✓		✓				✓	Defined by the National Policy Framework for SME Development (2015).
		✓				✓			Utilized by statistics office (Economic Census).



Policies and Regulations

Financial Inclusion

- Comprehensive national financial inclusion strategies were formulated during 2015–2021 in South Asia.
- Common strategic goals: (i) digital finance and payments, (ii) financial literacy and education, (iii) consumer protection, and (iv) financial assistance for traditionally unserved and underserved segments—including MSMEs, women entrepreneurs, and priority sectors such as agriculture.
- Bangladesh and Sri Lanka address creating robust financial inclusion data for effective monitoring and policy interventions.
- Financial inclusion strategies are holistic but remain somewhat bank centric.
- Intragovernmental coordination between central government and financial authorities is well-established to implement and fine-tune policies.

National Financial Inclusion Strategies in South Asia

- National Financial Inclusion Strategy of Bangladesh 2020–2024
- National Strategy for Financial Inclusion 2019–2024, India
- Financial Inclusion Roadmap 2017–2022, Nepal
- National Financial Inclusion Strategy 2015, Pakistan
- National Financial Inclusion Strategy for Sri Lanka 2021–2024

Source: ADB Asia SME Monitor 2021 database.

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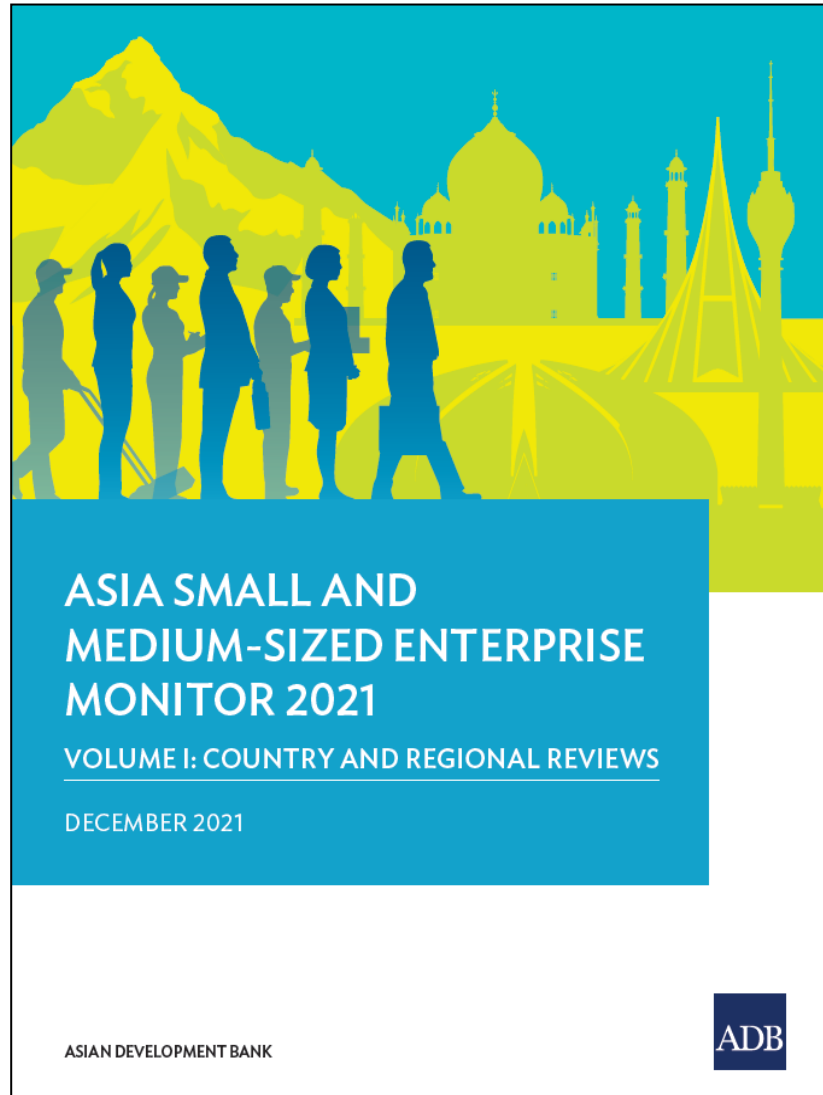


The Way Forward

- Economies in South Asia could recover and boost their resilience to shocks by strengthening MSME growth and dynamics.
- **Formalizing** and **internationalizing** MSMEs, with fostering tech-based MSMEs and youth/women entrepreneurs, would accelerate economic recovery and ensure resilient, inclusive growth.
- More balanced support would be needed for businesses hit badly by the pandemic and those with high growth potential, by channeling **growth capital** to the latter.
- Developing **data infrastructure** is key to promoting evidence-based assistance for MSMEs.
- Encouraging the use of **a single national MSME definition** for policy implementation is another critical issue.
- **A dedicated MSME law** is worth consideration in countries with no legal framework on MSMEs for effective support.
- The region's financial inclusion strategies are holistic but somewhat bank centric. From a longer-term perspective, more attention should be paid to **market-based financing** via capital markets and digital platforms.



For more details...



- Asia Small and Medium-Sized Enterprise Monitor 2021: Volume I—Country and Regional Reviews

Past edition:

Asia Small and Medium-Sized Enterprise Monitor 2020

<https://www.adb.org/publications/series/asia-small-medium-sized-enterprise-monitor>

Thank you for your attention.

For further questions:

Shigehiro Shinozaki

Senior Economist

Economic Research and Regional Cooperation Department

Asian Development Bank

Email: sshinozaki@adb.org

