

Catalysing Business Upscaling

A study on Cluster and Value Chain Financing for MSEs in Bangladesh: Current Status and Way Forward



Business Finance for the Poor in Bangladesh

1 Overview of Bangladesh MSEs

Bangladesh has **8 million small business** contributing **25% of GDP**.
177 clusters and **70000 small businesses** with annual turnover of **BDT 300 billion**

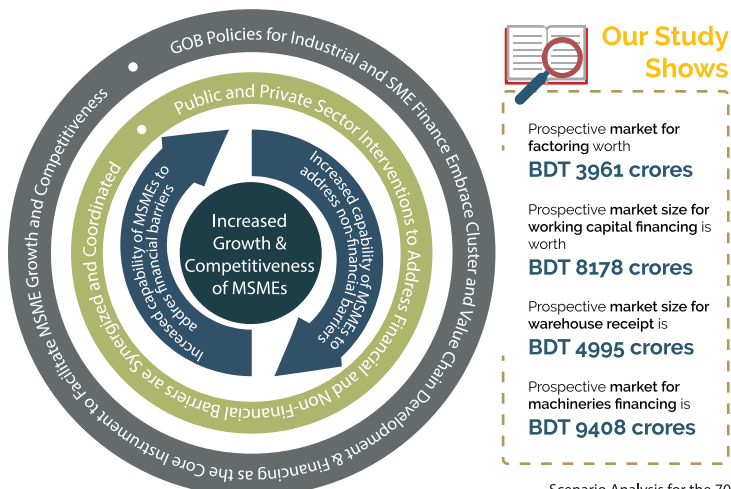
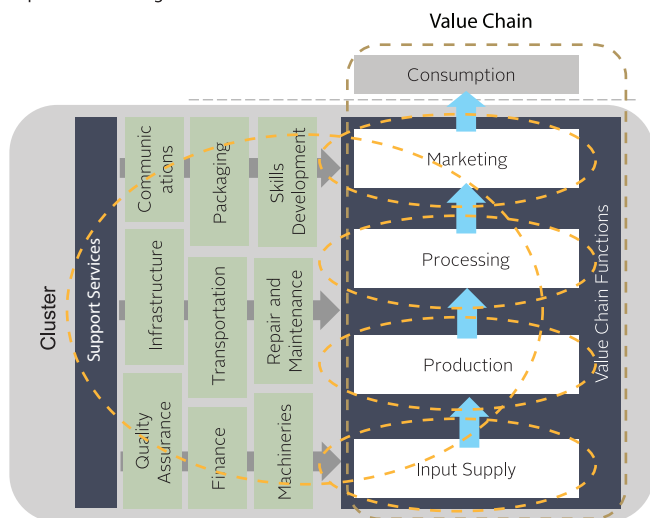


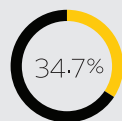
Fig: How cluster and value chain finance facilitate MSME growth and competitiveness

2 Cluster and value chain financing will expand the scope and reach of MSME financing

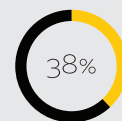
MSME financing is currently targeted towards enterprises in the production function of the value chain. By taking cluster and value chain approach to financing; larger number of enterprises can be targeted



3 Large number of MSMEs are not availing external financing

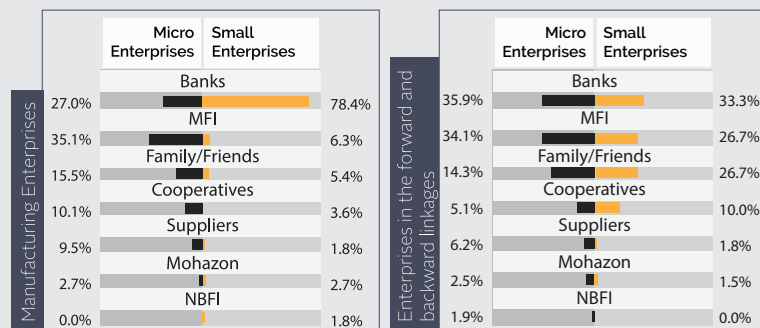


small businesses does not have have access to finance due to lack of bank transaction history, lack of collateral and high interest rate.



MEs do not have bank accounts. Of those who do not have bank account, 68% reported that they prefer cash transaction

4 Source of finance vary between micro and small enterprises



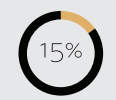
5 Capacity varies between micro and small enterprises



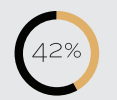
Sole Proprietorship



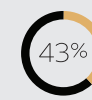
Partnership Business



Located in Industrial Area



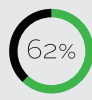
Home Based



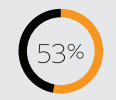
Located in Commercial Area



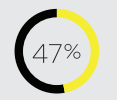
Enterprises Have Trade License



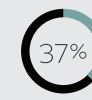
Have company bank accounts



operate from rented premises.



operate from their own premises.



MSMEs in the clusters having mobile banking account.

6 Enterprises owned by women are more informal than enterprises owned by men

Female Led Enterprises

Lower fixed assets
(BDT 612,980)

98.7%

Sole proprietorship

92.2%

operate from home

76.6%

do not have trade license

72.7%

do not have membership with any trade association

Male Led Enterprises

Significantly higher fixed assets
(BDT 13,82,005)



87.8%
Sole proprietorship.



34.8%
operate from home.



27.4%
do not have trade license.



50.6%
do not have membership with any trade associations.

Executing Agency



MoF FID

Implemented by



Ministry of Finance

Funded by



UKaid

Managed by



NATHAN
Trusted for Excellence

Oxford Policy Management

Technical assistance by



INNOVISION
Research | Technical Assistance | Project Management

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7 There is mismatch between the supply side and the demand side



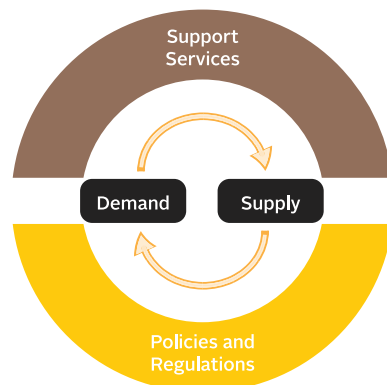
Financial products and incentive schemes do not take into account the differences in capacities and needs between micro, small and medium enterprises



Incentive schemes are more outreach oriented. Financing do not serve strategic and long term development needs



Banking and non banking institutions cannot play development role. MFIs can play development role but their experience and capacity are not being leveraged



8 Policies and support services are not conducive to cluster and value chain financing



The Industrial policy 2016 does not have any specific mention or objective on cluster and value chain financing.



Policy documents do not define inter-agency collaboration (between BB, MRA, SMEF, MoI) for cluster and value chain financing



The Bangladesh Bank SME policy do not specify any system to rate or assess financial readiness of the MSMEs and the clusters and the value chains



Traditional MSME loans are used to serve the enterprises in clusters; no specialized products like SPVs



The Industrial policy 2016 does not provide any institutional set-up at local government level that can support cluster and value chain financing

9 Road Map to Institutionalize Cluster and Value Chain Financing in Bangladesh

KEY FOCUS AREAS

- Introduce cluster and value chain development as a key objective under the Industrial Policy 2016
- Develop a 5-Year National Cluster and Value Chain Development and Financing Strategy Plan
- Amend the Bangladesh Bank's master circular on MSME financing with operational definitions for clusters and value chains
- Make available refinancing from Bangladesh Bank to financial service providers for cluster and value chain based lending

