United Nations Economic and Social Commission for Asia and the Pacific

MSME Financing Series No. 1

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

   A clear discussion of access to finance requires that definitions are clear. What are the definitions for micro, small and medium sized enterprises in your country? Are these definitions used throughout the government? Do banks and finance companies use them? Do differences in definitions cause confusion among MSMEs?

   Note that some countries do not have a single definition of MSMEs that is used across all government agencies, departments, and the private sector. Indicate whether this is the case in your country and whether it leads to problems and confusion when MSMEs apply for credit, especially through preferential schemes.

   **Data**

   **Gauging financial access from data**
Country-level data that provide a breakdown of financial access can be used to gauge the level and share of finance to MSME versus large enterprises. It should be noted, however, that good information in this regard may be lacking. Central banks and commercial banks may have data on loan size but not the size of the borrower. Survey data may exist and can be useful if it is reliable, representative and covers a sufficiently large number of enterprises. Survey data nearly always contains one or more variables that can be used to differentiate enterprises by size (i.e. the number of workers, invested capital, sales, etc.). This allows the analyst to easily divide the sample and make comparisons based on size. Along with size, the data may be further broken down by gender (of the enterprise owner and manager) and possibly other categories (such as youth, the poor, etc.). The data should be based on the definitions of MSMEs used in the country and be disaggregated by sex in all possible instances.

To gauge financial access, study teams should include data on the following:

(i) Share of MSME lending in total enterprise lending disaggregated by the sex of owner.

(ii) The difference between the share of MSME lending and the share of MSME output disaggregated by sex of owner, which is a rough indication of whether MSMEs are adequately serviced by the credit market.

(iii) The relative importance of different credit institutions, programmes, and modalities.

These data should be provided in the subsequent sections of the framework to answer questions such as “what is the share of MSME credit covered by credit guarantees?” or “is there a difference between men and women’s access to different credit institutions, programmes and modalities”?

If available, it would be useful to have breakdowns for lending to specific MSMEs groups such as those headed by youth, the poor, ethnic minorities, women, rural people, those engaged in green activities or that use environmentally friendly processes, those that export, etc.

Other data that should be included are:

(i) Share of MSMEs with a deposit account at a regulated financial institution and the share of women owned MSMEs with such an account.\(^2\)

(ii) Share of enterprises with a loan or line of credit from a regulated financial institution. Share of women-owned enterprises in this regard.

(iii) Share of MSME loans that are non-performing and the share for all enterprises.

(iv) Share of MSMEs with access to digital financial services disaggregated by sex.

(v) Average lending interest rate to MSMEs compared to the average rate for all enterprises.

If good data are available, they can provide much information about access. However, they may provide little information about the barriers to access – the “why” question. For that, a more ground-level analysis is needed as outlined below.

**Gauging financial constraints through interviews and discussion**

The constraints to financial access can best be understood through discussion with those engaged in the process: borrowers (enterprises) and lenders (financial institutions). They can draw on their

\(^2\) Shares should be stated in percentage terms.
experiences. The reasons may be many and many of the reasons will be related to the institutions, regulations and financial sources that are outlined in detail in subsequent sections. In this section, it is important to capture the main barriers and create an overall understanding and storyline.

Here are a few barriers that may explain the limited access:

From the enterprise side:

(vi) Discomfort or timidity in approaching a bank or other financial institutions (often true for poorer people, rural residents, etc.).

(vii) Don’t apply because they don’t think they will get accepted (also, may have been rejected in the past).

(viii) Documentation requirements are onerous, baffling or difficult to comply with (may not have the required documents).

(ix) Unable to put together a solid loan proposal.

(x) Lack of available collateral.

(xi) Collateral requirement is too high (a multiple of the loan size).

(xii) Women do not possess collateral because it is owned or registered in the spouse’s name.

(xiii) Unwilling to put up collateral for fear of losing it in the event of default.

(xiv) Have borrowed from micro finance institutions (MFIs) in the past and now need a larger loan that MFIs cannot provide.

In many countries, there is a “missing middle” in access to enterprise finance. Micro firms can borrow from MFIs but only for small loan amounts. Large enterprises do not have difficulty getting access. In the middle are firms that have outgrown micro finance and yet are not big enough to access commercial banks and related lenders. It is important to be aware of the possibility of this phenomenon and determine whether it exists in your country.

From the financial institutions:

(xv) Enterprises are not able to put forward a convincing loan proposal.

(xvi) Enterprise owners lack financial literacy

(xvii) We lack the information (from credit information systems) needed to properly screen borrowers

(xviii) We know that many small enterprises fail in the first 1-3 years of operation, so as a group they are high risk

(xix) We would provide more SMEs loans if the government or some agency could provide a guarantee

(xx) Enterprises are unable to put forward adequate collateral

(xxii) It is difficult to seize and depose of collateral
The cost of loan screening and administration are proportionally higher for smaller loan sizes; therefore, it is less profitable than lending to large enterprises.

Our staff do not understand MSME clients very well.

2. Policy and regulatory framework

SME development policy, plan, strategy, or law

Does the country have a national MSME development policy? This may be called a policy, plan, a master plan, a framework, a strategy, or something similar. In many cases it can be very general. It will almost certainly contain a section or some paragraphs on access to finance, as this is one of the main concerns of MSMEs. In most cases, this is a document adopted by the government and often given cabinet level approval. In more rare cases, it may take the form of a law. The MSME Development Act, 2006, in India is a good example in this regard. If such a national MSME strategy or action plan is available, does it include gender and women’s economic empowerment considerations? And does it differentiate among the needs of micro, small and medium-sized enterprises?

Some countries may be part of a regional economic grouping, such as ASEAN, that has a regional MSME policy framework. The country may comply or seek to support that framework in addition to its own domestic policy framework.

Does the policy or law have specific targets or requirements that the government is committed to fulfilling? Do these clauses relate to finance? These are important questions because they determine the regulatory environment for MSME finance. For example, India’s MSME Development Act requires that MSMEs that have sold goods or provided services on credit must be paid within 45 days. This is a requirement to address the unequal bargaining power between large and small firms and the problems encouraged by small firms when they are unable to receive payment on time, affecting their working capital requirements.

Coordinating agency

Does the country have a single agency that coordinates MSME policy among the various ministries and agencies? In addition, is there a central council with representatives from government agencies and possibly also the private sector? And if that is the case, what is the share of female members of the council, and does the council include a representative from a government agency or department responsible for women’s issues?

As an example, SME Corporation in Malaysia fulfils the role of a central coordinating agency. There is also the National SME Development Council in Malaysia, chaired by the prime minister, that has the role of formulating strategies for SME development ensuring the effective implementation of SME development programmes.

Actions on financial inclusion

Is the country making a big push to expand financial inclusion? And are there targeted measures to promote financial inclusion of women? If there are policies to expand financial inclusion, what are the benefits for MSMEs?

Besides increased access to credit, the benefits of financial inclusion policies could include access to basic financial services, such as a savings account, which owners of enterprises could use for their
business. As an example, since 2014 India has aimed to ensure that every household has a bank account, which resulted in millions of new accounts being opened in the country. The accounts may help micro entrepreneurs, and particularly women, to establish a banking relationship and transactions history that can be used in the future to access credit.

**Regulatory framework**

Is there a single regulatory and supervisory framework applicable for all financial institutions or there is a specialized framework for nonbank financial institutions (NBFI), which tend to lend more to MSMEs? How different are regulations to NFIs compared to those for commercial banks? What are the registration and licensing requirements for micro financial institutions (MFIs), and how are they regulated and supervised? Are there special regulations for the alternative finance industry, including fintech?

**Requirements on the share of bank lending to MSMEs**

Are banks required to provide priority lending (i.e. a targeted share of their lending) to MSMEs? This is the case in some countries. What is the share? Are there specific targets for female-headed businesses? If so, are there any challenges in achieving these targets and how are these challenges addressed? Are there specific targets for the types of MSMEs? For example, are there targets for green businesses, for high tech businesses, for export businesses, for rural businesses, for businesses headed by the poor or low-income people, for ethnic or religious minorities?

Furthermore, the bank may need to pay a penalty for not meeting the requirement. What are the penalties? In some countries, banks find that the requirement distorts their lending strategy and will either raise costs, increase the number of non-performing loans, or both. As a result, the bank may prefer to pay the penalty instead of lending more to MSMEs. Are many banks opting to pay the penalty?

In other countries, the target is not linked to a specific penalty. The central bank may use moral suasion to urge banks to meet the target. Banks that do not meet the targets may be subject to non-specified penalties, such as a higher cost of funds from the central bank, or delays and rejections in approvals for establishing new branches or introducing new instruments.

The central bank may set different targets for different financial institutions, such as a higher share for a bank that is specialized in MSME lending. As well, there might be a market where banks can trade “quota”, in which banks that are over the MSME lending target can “sell” the excess of their quota to banks that are not able to meet the target on their own.

The setting of MSME lending requirements is a controversial issue. No judgment is being made here about whether this is a good or bad policy. The interest is whether such a requirement exists, how it works, and whether it is being implemented effectively. Innovative strategies (carrots and sticks) used by central banks to meet targets should be investigated.

**3. Lending infrastructure and support**

**Credit registry (public)**

Is there a credit registry operating in the country? Is there more than one national registry? Are there regional registries (by province or state)? Does the registry include MSMEs? Is there a dedicated registry for MSMEs? Registries are usually operated by the government or have a quasi-public status.
Is there a legal requirement that all credit transactions be registered? Are all MSME credit transactions included? If not, what share of them are listed? Who has access to search the registry? Does the registry indicate only defaults on past lending or is there more detailed information? Does it make an assessment and assign a score or rating?

It must be pointed out that credit registries and bureaus, discussed below, can particularly benefit women, who are less likely to have banking relationships and credit histories. Comprehensive registries and/or bureaus capturing not only defaults, but also positive credit histories, as when interest and principal are paid on time, can improve the risk profile of women, as women tend to have higher repayment and lower default rates than men.

**Credit bureau (private)**

Is there a credit bureau operating in the country? Is there more than one? Are MSMEs included? Is there a dedicated bureau that lists only MSMEs? Credit bureaus are normally private institutions. Banks and other financial institutions provide information to the bureau and receive information about a borrower's credit history and current borrowing. Does the bureau cover a large share of credit transactions? Is the information from the bureau important in making MSME lending decisions by banks and other financial institutions? Does the bureau make an assessment and provide a score of rating?

**Credit guarantee programmes**

Does the country have a fund or agency that offers credit guarantees (CG)? Nearly all middle-income countries do. There may be more than one. Japan uses CGs extensively and has a CG agency in every prefecture (province). There may also be more than one national CG, with some having specialized functions. South Korea has a dedicated agency that guarantees credit for investments in technology. Most CGs target MSMEs because larger firms do not need a guarantee. Still it is important to know whether the CG provides support only or primarily to MSMEs. It is also important to know whether CG schemes target women-headed businesses. As an example, Credit Guarantee Corporation Malaysia supports women-headed enterprises, among other MSME categories.

How much lending does the CG support? This can be presented as a share of total lending to MSMEs in the country. Does the guarantee focus on certain types of firms, for example, those above or below a certain size? Does it focus on enterprises at a certain stage of development such as startups or enterprises seeking a significant expansion? Does it target younger firms or older firms? Other important information includes coverage and costs. What is the coverage ratio (i.e. percentage of the loan that is guaranteed)? This is normally between 50% and 90%. What is the cost to the enterprise of having a guarantee? It is usually between 1% and 5% of the loan value. It may vary by the type of guarantee and the creditworthiness of the enterprise.

**Collateral: law, use, resolution**

Is there a law that governs the use of collateral to secure credit? What year was the law enacted? Have there been substantive revisions? Are there any indications that it might be outdated? For example, until recently, the law in Thailand required that the collateral asset be in the possession of the lender and as a result would not be available for use by the (borrowing) enterprise. This made it difficult to pledge machinery, vehicles and inventory. In particular, a lack of fixed assets for use as collateral is a primary factor explaining the gap in access to credit faced by women entrepreneurs. Does the country have institutions applying innovative appraisal techniques that reduce collateral
requirements for women headed MSMEs? Instead of a specific collateral law for lending, are issues of collateral covered by civil or commercial law?

The range of assets that can be used as collateral is important. Does the law apply only to fixed assets (i.e. land and buildings) or does it also apply to moveable assets (e.g. vehicles, machinery, livestock, inventories)? Does it allow for the use of accounts receivable as collateral (i.e. securitization)?

For the law to be effective, it should be supported by the country’s legal machinery. Can the courts deal quickly with causes of default by granting requests to seize and dispose of pledged assets? Or instead, is it a lengthy, costly and/or cumbersome process such that financial institutions are wary of using the legal system? Alternatively, does the law allow for the seizure of pledged assets without the need to request permission from a court?

Does the legal machinery allow for easy review to see whether an asset is already being pledged for another loan? For example, is it easy to do a title search to see if there are liens against a property?

Securitization and factoring mechanisms

Is the securitization and factoring of assets, notably accounts receivable, used commonly by MSMEs? Is it mostly used by medium enterprises, instead of micro and small enterprises? Is it used by women-owned businesses? How many firms offer securitization? How many firms offer factoring? What is the total volume of each in terms of the monetary value of the assets secured or the credit obtained on those assets?

Secured (moveable) assets registry

An assets registry allows borrowers to list assets used as collateral. Such a registry tends to focus on moveable property such as vehicles, machinery, inventories, and possibly accounts receivables. Knowing that the asset exists and has been registered gives lenders some assurance that the asset can serve as collateral. The creation of an assets registry often occurs with the revision of collateral law. On-line (instead of in person) registration makes the registry easier to use and more likely to be used. Indonesia experienced a large increase in usage once the registry was put on-line.

Is there a functioning registry in the country? If so, what are the number and the value of assets registered? What is the amount of MSME lending secured through the registry? What percentage is secured by women? What has been the increase over time? Does the registry indicate all existing liens against an asset? Do banks and other financial institutions consider the registry to be credible? Do they use it in proving credit to MSMEs? Does the registry benefit women more than men, given that women are less likely to own fixed collateral?

Rescheduling support and dispute resolution mechanisms

Does the central bank or the government offer support to MSMEs to reschedule debt? This is an activity offered, for example, by Malaysia’s central bank and is known as the Small Debt Resolution Scheme. It is based on the premise that when a MSME runs into trouble servicing

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3 Factoring involves one firm (the factor) that buys the accounts receivable. With securitization, accounts receivables are bought and packaged into an asset that is sold to investors.
a loan it is difficult to negotiate a rescheduling and instead is forced into default. The commercial bank’s concession normally takes the form of reducing the size and term structure of repayments. The central bank helps the MSME and the commercial bank to agree a rescheduling agreement suitable to both parties.

There may be other redress or alternative dispute resolution mechanisms for credit repayment problems that do not involve the courts or legal system. Such mechanisms are particularly relevant for women because they are less likely to be legally or financially literate, they have less access to information, resources, time and capacity to travel to courts, and they often rely on verbal contracts and agreements which cannot be enforced through formal systems. Are such mechanisms in place and used by MSMEs and their creditors?

4. Dedicated banks and funds

SME development banks

Is there a dedicated development bank for MSMEs? Is there more than one? Many countries have them such as the MSME Bank in Thailand, one of eight specialized financial institutions operated by the government. The Small Industries Development Bank of India is another example. By their name, these are often easy to spot. What is the total amount of lending? Can we estimate the share of total MSME lending in the country that is provided through MSME bank(s)? What is the share of development bank lending to women headed MSMEs?

Specialized financial institutions with a strong MSME mandate

Are there specialized financial institutions (including general development banks) with a strong MSME mandate? A country’s development bank may have a mandate to support enterprises of all sizes, but in reality, it may lend predominately to MSMEs. This is because large enterprises can access finance from private banks or other sources. What share of the development bank’s total lending is provided to MSMEs, and what share of that lending goes to women headed MSMEs? What is the total amount? There may be other institutions, such as the export-import bank, that mostly serves MSMEs.

SME funds

In some cases, a government or the central bank may set up a special fund (or programme) to provide finance to MSMEs. The fund may exist instead of or in addition to an MSME development bank. Such funds are part of what is referred to as ‘direct monetary interventions.’ There may be several operating to support different segments of the market and managed by different ministries or agencies. How many funds (or programmes) are there? What are their key target groups? Are there schemes and programmes targeting women entrepreneurs? How much money is lent? Where does the financing originate? Are some financed by donors or multilateral development banks? What is the rate of repayment? Does the fund need to be periodically replenished? Does it have limited life span and an end date? What share of the financing is for: i) working capital; ii) investment, and iii) other purposes? What is the share of financing from such funds going to women headed MSMEs?

Central bank funds for on-lending

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4 Sometimes these are referred to by the acronym ADR (alternative dispute resolution).
The central bank may seek to meet MSME lending policy objectives by providing financing to commercial banks for on-lending to MSMEs. Does the central bank have such a programme? If so, how much financing is provided annually? Do the funds target women, and if so, how much funding is dedicated to that? Do the funds target green enterprises and how much funding is directed to that area? What is the interest rate charged by the central bank and is there a maximum that the commercial bank can charge to MSMEs? What is the maximum?

Private MSME-focused banks and nonbank financial institutions

Does the government or central bank allow or encourage the licensing of banks and other financial institutions (such as nonbank finance companies) dedicated to MSME lending? India recently offered ten bank licenses to create banks of this nature. In other cases, finance companies might have a high share of their portfolio dedicated to small businesses.

Microfinance institutions (focused on MSMEs)

Most countries have an active cohort of microfinance institutions (MFIs). Many focus on households, but some have a large client base of MSMEs. In many cases this is one of the few options available for women, particularly for those concentrated in the micro and small end of the spectrum. As well, MFI lending to households is often used for micro entrepreneurial activities. How active is the MFI segment? Is there considerable lending being channelled as business loans to MSMEs? Is this helping to relieve the financial constraints of the micro and small end of the MSME sector? What are the interest rates for borrowing from MFIs? What are the shares of men and women borrowers? How important is the MFI sector in terms of lending to women entrepreneurs? Are interest rates generally equal for men and women?

5. Equity and related support

Small cap equity market

Is there an equity market (stock market) for smaller firms? Nearly all countries have a stock market and larger countries may have more than one. Small firms may find it difficult to list or to secure capital on the main market. As a result, an additional market or “board” is set up for smaller firms. Thailand’s Market for Alternative Investments (MAI) is an example. Firms might first list on the small caps market and then switch to the main board after they have grown and become more successful. Key questions include: When was the small caps market or board established? How many firms are listed and is the list growing at a good pace? Is there a decent level of trading activity on the market? What has been the record of graduating firms to the main board? If a small caps market does not exist, should it be introduced or is it premature?

Islamic finance

In countries with a sizeable Muslim population, financing may be provided on Islamic principles. Malaysia is at the forefront of Islamic finance, which operates in parallel with mainstream finance. The central bank issued the Islamic Finance Services Act 2013, which covers all Islamic based financial services including takaful. Any conventional product that is offered to MSMEs is similarly offered in the form of Islamic finance.

Is Islamic finance prominent in the country? How many financial institutions operate on Islamic finance principles? Is Islamic finance an important source of MSME financing? What is the level of such
financing? Are women entrepreneurs active users of Islamic finance, and are there initiatives to attract women borrowers?

Venture capital

Are there venture capital funds that support MSMEs? The government may set up such a fund or they can be established privately. Their purpose is to inject finance into young start-up companies that have little in the way of revenue and lack a track record of performance. These start-ups need funding to hire staff, purchase equipment and supplies and start production. In other cases, they need finance to scale up their operations. The capital injection normally takes the form of equity. The venture capitalist will sell off or sell back the equity after several years when the enterprise has become successful. How many venture capital funds operate in the country (private and public)? Do they offer programmes or make special efforts to target women headed MSMEs? What is the share of women-owned enterprises in their portfolios? How many firms do they invest in annually? What is the total amount of each fund? How much do they invest each year? What is the average size of the enterprises they invest in? What share of investment supports rapid growth enterprises (i.e. gazelles) and what share is for businesses with more moderate (i.e. organic) growth?

Angel investors

Are there angel investors operating in the country? Are there any female angel investors? Are there any known cases of women owned MSME’s receiving angel funding for start-up or upscaling? Angel investing is a private activity in which wealthy individuals, often business owners themselves, invest in and help small start-up businesses. It is like venture capital but less formalized. In many countries, angel investors may operate within an ethnic community (e.g. Chinese or Indian business communities living outside of China or India).

Angel investment is normally hard to quantify because it is a very private activity. Qualitative evidence may be obtained by talking with representative persons within these networks (although these may be hard to locate) or by asking MSMEs whether they have received funding from angel investors. Some countries have an association of such investors such as the Malaysia Business Angel Network. Is there such an association in the country? What is the share of female members of the network?

Venture debt

Lending can also be provided from investment funds (instead of banks) and are usually directed at new or young ventures. The rationale is similar to venture capital, but the modality takes the form of lending (i.e. debt) rather than equity. Venture debt is very recent but growing quickly in some places. India has eight venture debt funds and the growth of this form of financing has taken off since 2015. Online venture debt is conducted on a peer-to-peer basis.

Are there any firms/funds offering venture debt? What is the total size of the market currently? Is it nearly all going to high tech start-ups? How is it regulated? Are there funds offering targeted schemes for women-headed businesses? What is the share of women entrepreneurs among all beneficiaries?

6. Fintech

‘Fintech’ encompasses a range of activities that use information and communications technologies (ITCs) to support financial transactions. Our concern here is activities in which fintech helps MSMEs
gain access to finance. Are there targeted programmes or schemes to enhance financial access for women entrepreneurs?

**Mobile and internet banking**

Is mobile and internet banking used to facilitate access to finance for MSMEs? Internet banking have become widespread in many countries. People and businesses can move money between accounts, make and receive payments, and access other financial products. Banks and independent fintechs have sites for purchasing and trading equities, bonds, foreign exchange, and other financial products. Mobile banking allows for activities on mobile devices (notably smartphones, but also tablets and laptops).

What is the level of internet and mobile banking usage among MSMEs? For which types of transactions is it used? Is its most important usage the management of payments, receipts, and working capital? Are MSMEs able to apply for and get approval for credit over the internet without having to go directly to at bank branch? What are the rates of usage of mobile/internet banking among men compared to women entrepreneurs for different transactions? Do women experience any constraints in accessing mobile or internet banking? Are there any sex-disaggregated data on the gap between urban and rural usage?

**Credit assessment**

Are banks using advanced computer software and links to data sources (i.e. big data) to assess credit requests? Banks are increasingly using computer-based credit scoring models. They also have access to more information on the credit histories of MSMEs (and their owners). These improvements can improve capacity to assess and price risk. Have these innovations increased the level of financing to MSMEs? If so, what is the rate of increase for men and women? Do these methods reduce the cost of assessment and therefore help overcome the traditional problem of the high cost of assessing small loans? Are banks outsourcing credit assessment to fintech companies?

**Monitoring**

Is internet and mobile banking used to monitor loan use and repayment? With fast and low-cost communications, fintech can allow banks to better monitor their loan clients. To what extent are banks making use of the technology in this regard? Furthermore, does the possibility of improved monitoring decrease repayment risk and therefore increase the volume of lending to MSMEs?

Are banks outsourcing their monitoring and repayment activities to standalone fintech companies that can do it efficiently and cheaply?

**Peer-to-peer platforms (lending)**

Do peer-to-peer lending platforms operate in the country? Such platforms are set up and run by fintech companies. The company receives loan requests from MSMEs. The company assesses and grades each request and its originator, and then assigns an interest rate. Loan requests are posted on the platform (website). Individuals who wish to lend money can review the various loan requests, select one and provide funds. The lender earns by receiving the interest payment and the borrower gains access to funds at a cost lower than would be possible at a traditional lender.

How many peer-to-peer platforms operate in the country? Do they need to be licensed by the government, central bank or financial sectors’ supervisor agency? Are there regulations in place for
such licensing? How much lending have the platforms facilitated? What are the shares of men and women recipients of such funding? Are there any data on the ratio of funding applicants to recipients, disaggregated by sex? Is there any information on female investors? Can MSMEs access funding through platforms regulated and based in other countries?

**Crowdfunding (equity)**

Crowdfunding allows investors to invest in a company through an online platform. An MSME is listed on the platform and the public can decide to provide funding and receive equity in the company. A non-equity form of crowd funding involves pre-selling in which people forward money in advance for the payment of goods or services that will be produced in the future.

How many crowd-funding platforms operate in the country? How much finance is provided annually through such platforms? Are the platforms regulated? Malaysia has put in place an Equity Crowdfunding Framework and was the first country in ASEAN to enact a law and regulations. Is there provision in laws and regulations to allow for the establishment of crowd funding platforms?

What are the shares of men and women beneficiaries of such funding? Are there any data on the ratio of funding applicants to recipients, disaggregated by sex? Is there any information on female investors?

**Investment account platforms (IAPs)**

This internet-based vehicle is associated with Islamic finance and allows for investment in companies. Are there IAPs operating in your country and providing finance to MSMEs? If so, what is the total quantity of financing they provide annually to MSMEs?

**Crypto currencies**

Crypto currencies, using block chain technology, are spreading to many countries. Are these new currencies, such as Bitcoin, becoming more available in your country? Are MSMEs using them? What types of transactions are they being used for by MSMEs? Have the authorities tried to regulate their use? Is there any information about the use of crypto currencies for MSME funding by women?

7. **Business models and partnerships**

**SME departments and programmes in financial institutions**

Do banks and other financial institutions have dedicated departments or programmes to serve MSMEs? Many banks do as they see MSMEs as an important client group. There may be dedicated loan officers who are specialized in encouraging and assessing MSME credit applications. There may also be specialists who are trained to better support women applicants (who may need additional assistance due to lower levels of literacy and access to available information), or special programmes targeting women. Banks may also establish specific loan and other financial products that cater to the needs of MSMEs.

What share of bank lending is provided to MSMEs? What is the share for other financial institutions? How do the interest rate and other loan terms differ between MSMEs and larger enterprises? What
efforts have banks and other financial institutions made over the past 5 years to increase the volume of lending to MSMEs? Were there targeted initiatives to increase lending to women headed MSMEs? Are these coupled with the provision of other business development services targeting women (e.g. help with business plans, accounting, marketing, etc.)? What indication is there that these efforts have been successful? Has the loan portfolio for MSMEs grown faster than for large enterprises or other loan segments?

Banks and MFIs: Reaching up, reaching down

Do banks and microfinance institutions (MFIs) collaborate to provide finance to small enterprises? MFIs are designed to provide finance in small amounts to households and microentrepreneurs. Some of them scale-up and attempt to reach what is known as the “missing middle” – those enterprises that outgrow the small amounts of finance offered by MFIs and yet are not large enough or sufficiently established to access larger amounts from banks and other formal lenders.

MFIs may wish to leverage the infrastructure (branch network) and the larger funds pools of banks and other financial institutions. At the same time, banks may wish to serve this segment and work through the MFIs who have an existing client base and efficient lending modalities for small-scale borrowers. As a result, banks may wish to “reach down” to serve smaller enterprises than they normally do, and MFIs might wish to “reach up” to serve promising microenterprises and smaller businesses.

What types of collaboration have emerged between banks (and other financial institutions) and MFIs? Are banks providing funding to MFIs? Are MFIs using bank branch infrastructure to provide their services? Are banks using MFIs to expand their outreach and services to women-headed and smaller enterprises? Do we see MFI clients graduating to bank finance as a result of bank-MFI collaboration schemes?

Agent and correspondent banking

To reach households and entrepreneurs in rural and other underserviced areas, financial institutions have set up relationships with agents and correspondents. They have expanded financial services and deepened financial inclusion. For example, in Malaysia the government savings bank, Bank Simpanan Nasional, has been a leading force in promoting agent banking.

How common are these mechanisms in your country? What is the amount of finance that is provided in this manner to men and women? Is it mostly in the form of savings or is it also used to provide credit? Are women headed MSMEs an important part of the clientele? Can loans be applied for and approved through these mechanisms or are they mostly used to provide savings and payment services?

Business membership organizations (BMOs)

Business membership organizations (BMOs) represent the interests of the private sector. Many are dominated by large businesses, but some cater to the interests of MSMEs, which represent a large share of the membership. A key function of a BMO is to represent the interest of the members to policymakers. Do BMO’s offer any assistance to promote the interests of women members with policymakers?
BMOs also support the success of members' businesses through training, awareness programmes, and business promotion (trade fairs). Some active BMOs see a role in supporting access to finance. They do not operate credit programmes themselves but can help to make financial institutions aware of members' needs and make members aware of credit programmes and opportunities. Are there BMOs who play a role in bridging the financing gap between MSMEs and financial institutions? What types of roles do they play? Is it awareness raising and training? Or does the BMO go further in providing an assurance or guarantee in the case of securing credit? Generally, how do they assist in enhancing access to finance for their MSME members? Are there special women business associations, and what role do they play?

8. Demand-side support

Advising and training borrowers

SMEs often need assistance in applying for finance. They may not know which institutions to approach and may be unaware of public credit programmes. Critically, they often do not know how to put together a good loan proposal. Public agencies and BMOs can – through outreach, information seminars, documentation, and training programmes – assist them in knowing where to apply and in putting together a bankable proposal. Generally, these programmes provide financial education and improve financial literacy.

What types of programmes of this nature are available? Which are the key organizations involved? What is the most sought after and important assistance (such as loan proposal writing)? What needs are not being met? How many MSMEs are reached or assisted in various ways each year? Are there specific programs targeting women entrepreneurs in particular? Are there programs targeting green businesses?

Training lenders

Lenders need to be attuned to the needs of MSMEs. They need to know which types of products to offer and how to address the difficulties that MSMEs have in approaching a lender, providing documentation, and meeting criteria. This applies particularly to lenders catering to women applicants, many of whom have limited access to information and financial literacy at the outset of entrepreneurial activity. Programmes that help to train the personnel of financial institutions can help. Programmes can be provided by the central bank or a government agency with a mandate to expand MSME credit or broaden financial inclusion.

Are there programmes to assistance financial institutions in better knowing about MSMEs? Are these training programmes gender sensitive? What are the main programmes and what is the focus? Do they have any special focus on lending to women-owned, or green, MSMEs? Are the programmes effective? How is effectiveness measured?
Annex 1: Table of Questions and Issues

* = requires a quantitative or numerical response

1 Financial access for MSMEs

**SME Definition**
What are the national definitions for MSMEs and MSMEs?
Are these definitions used throughout the government?
Do banks and finance companies use these definitions?
Do differences in definitions cause confusion among MSMEs?

**Data, disaggregated by sex of entrepreneur**
Total lending to MSMEs *
Total lending to all enterprises *
Total output share of MSMEs *
Ratio of lending share to output share *
Share of MSME lending to specific groups: women, youth, poor, rural, ethnic minorities, start-ups, exporters, others *
Share of MSMEs with deposit account *
Share of women owned MSMEs with a deposit account *
Share of MSMEs with a loan or line of credit *
Share of women-owned enterprises with loans or lines of credit *
Share of NPL of MSMEs. Share for all enterprises *
Share of MSMEs with access to digital financial services *
Average lending interest rate to MSMEs and to all enterprises *

2 Policy and regulatory framework

**SME development policy, plan, strategy or law**
Is there a national MSME policy or strategy?
Does it contain specific targets?
Is it a law? What aspects are binding (required)?
Are there targets for women’s businesses?
Is MSME development included in the national strategy/action plan on gender/ women’s economic empowerment?
Does the policy or law include specific targets for youth, ethnic minorities, green activities, rural vs urban?
Does the country cooperate with other countries or international agencies on MSME support?
Does the country conform to a regional MSME policy framework (such as that of ASEAN)?

**Coordinating agency**
Does the country have a single MSME coordinating agency?
Is there a central council or advisory group on MSMEs?

If so, does it have private sector participation?
What is the share of female members of the council? Does the council include a government agency/department representative responsible for women's issues?

**Actions on financial inclusion**
Does the government have a financial inclusion strategy? Are there targeted measures to promote financial inclusion of women? Is MSME finance part of the strategy? Are there aspects that could help micro entrepreneurs? Are there other efforts to expand alternatives to formal collateral, or to build credit histories beyond formal mechanisms?

**Regulatory framework**
Is there a specialized regulatory framework for nonbank financial institutions? How different are regulations to NBFIs compared to those for commercial banks? What are the registration and licensing requirements for MFIs? Are there special regulations for the alternative finance industry, including fintechs?

**Requirement on the share of bank lending to MSMEs**
Are banks required to lend a specified share to MSMEs? If so, what is the share? Are there specific targets for female-headed businesses? What is the penalty for not meeting the share? What share of banks pay a fine instead? What is the amount of the fine? What other methods does the central bank use to encourage banks to meet target? Are these other methods effective?

3 **Lending infrastructure and support**

**Credit registry (public)**
Is there a credit registry in the country? Is there a legal requirement that all lending must be registered? Are all MSME credit transactions included? What is the share (disaggregated by sex of entrepreneur)? Who can search the registry? Does it only register defaults or is other information provided?

**Credit bureau (private)**
Is there a credit bureau operating in the country? How many? Share of MSME credit transactions are covered (disaggregated by sex of entrepreneur)? Is the information important in affecting banks’ lending to MSMEs?

**Credit guarantee programmes**
Is there a credit guarantee programme or fund? How many? Is it focused only or primarily on MSMEs? What is the total amount of lending it supports annually? What share of total MSME lending does it support?
What is the coverage ratio (what % of the loan)? *
What is the fee charged to the enterprise? *
Are there institutions or funds running CG programs for women-headed businesses?

**Collateral: law, use, resolution**
Is there a law allowing use of collateral to access finance?
Is it up to date? Recent revisions?
Can moveable assets be used as collateral?
Is the legal machinery effective?
Is taking possession a difficult and costly process?
Are there any efforts to ease the collateral requirements to improve women’s access to lending? Are any innovative appraisal techniques used in this regard?

**Securitization and factoring mechanisms**
Are MSME actively engaged in securitization?
What share of MSMEs securitize or factor accounts receivable? *
What is the total volume MSME securitization and factoring? *
What institutions (banks, NBFC, fintechs, etc.) are part of the process?

**Secured (moveable assets) registry**
Does an assets registry exist?
What types of assets can be registered?
Do banks and other FIs consider it a reliable registry for collateral?
Is it online or does the MSME need to register assets in person?
When was it created?
How many assets are registered (disaggregated by sex of owner)? What is the total value? *
What volume of lending did the registry support in the past 5 years (disaggregated by sex of borrower)? *

**Rescheduling support**
Does the central bank or government agency provided support to reschedule MSME debt?
If so, how many loans have been restructured over the course of a year or several years (disaggregated by sex of borrower)? What is the total value? *
What is the total value of restructured loans (disaggregated by sex of borrower)? *
Are there other alternative dispute resolution (ADR) mechanisms used? What is the rate of their usage by men and women?

4 **Dedicated banks and funds**

**SME development bank**
Is there a development bank for MSMEs? More than one? *
What is the total amount of lending and share of total MSME lending? *
Does it service mostly more established and larger MSMEs? *

**Specialized financial institutions with a strong MSME mandate**
Is there a general development bank with a strong MSME mandate?
What share of its lending is provided to MSMEs (disaggregated by sex of borrower)?  *
What is the total amount of lending (disaggregated by sex of borrower)?  *
Are there other specialized financial institutions that support MSMEs?
If so, what type of institution and what is the lending profile?

SME funds
Are there public funds for MSME lending?
How many funds exist? What are the target groups?  *
Are there schemes and programmes targeting women entrepreneurs?  *
Are MSME funds operated by donors or MDBs? How much finance?
Are donors or MDBs providing finance to funds for on-lending?  *
Are donors or MDBs providing finance to funds for on-lending to women entrepreneurs?
What is the value of lending of each fund?
Where does the financing originate?
What is the repayment record (disaggregated by sex)?  +
Does the fund need to be replenished periodically?
Does it have a limited life span and specified end date?

Central bank funds for on-lending
Does the central bank provide finance for commercial banks to on-lend to MSMEs?
What is the annual value of such lending?  *
How does the central bank monitor the effectiveness?
What is the interest rate changed to the commercial bank?
Is the interest rate paid by MSMEs determined by the central bank?
What concessions do MSMEs get relative to regular bank loans?

Private MSME-focused banks and nonbank financial institutions
Are there banks dedicated to serving the MSME sector?
What share of total MSMEs lending do they provide?  *
Are there legal and regulatory provisions to encourage MSME lending to women?
Are there separate licenses for banks that cater to MSMEs?
If so, how many licenses have been issued?  *

Microfinance institutions (focused on MSMEs)
Are MFIs active in supporting credit access for MSMEs?
What is the volume of lending to MSMEs by MFIs?  *
What share of lending is provided to MSMEs?
What are the interest rates of borrowing from MFI?
What is a share of men and women borrowers?
How important is the MFI sector in terms of lending to women entrepreneurs?
Are average interest rates equal for men and women?

5 Equity and related support

Small caps equity market
Is there a public equity market for MSMEs?
If so, when was it established?
How many firms are listed and has the list been growing? *
Are women-led businesses listed on the stock market? What is their size and sector? *
What is the volume of trading on the market?
What is the record on graduating enterprises to the main board?
If no such market exists, should it be introduced or is it premature?

Islamic finance
Is Islamic finance available in the country?
Is it a common form of finance for MSMEs?
What is the volume of finance provided by Islamic finance to MSMEs? *
What share of MSME finance is provided by this type of finance? *
Are women entrepreneurs active users of Islamic finance?
Are there initiatives to attract women borrowers?

Venture capital
How many venture capital funds operate in the country? *
Do they offer programmes to fund women headed MSMEs? If so, what is their share of total lending?
Is there a government VC fund?
How many companies are invested with VC funds annually (disaggregated by sex of owner)? *
How much investment has occurred annually over the past 5 years? *
What is the average size of enterprises invested in? *

Angel investors
Are there angel investors operating in the country
Roughly how many are there? What is the share of women among them? *
Are there women MSMEs receiving angel funding? *
What is the annual average volume of investment?
Do they operate within an ethnic group?
Are they a significant source of MSME finance? *

Venture debt
Are there venture debt companies/funds in operation? How many? *
What is the volume of this form of credit? *
What types of MSMEs access this credit? Only medium-sized ones?
How is the venture debt market regulated?
Are there funds offering targeted programs for women's businesses?
What is the share of women entrepreneurs among all beneficiaries?

6 Fintech

Mobile and internet banking
Is mobile/internet banking used to facilitate MSME access to finance?
What is the level of internet banking among MSMEs (disaggregated by sex of borrower)? *
What activities are most common among male and female users?
Can MSMEs apply and get credit through internet banking?
Do women experience any constraints in accessing mobile/internet banking?
Are there targeted programs to enhance financial access for women entrepreneurs through Fintech?
Is there any data on the gap between urban and rural usage disaggregated by sex? *

Credit assessment
Are banks using fintechs tools for loan assessment?
Has fintech increased lending to MSMEs? By how much (disaggregated by sex of borrower)? *
What is share of all MSME loans assessed by fintech programmes (disaggregated by sex of borrower)? *
Do these tools reduce the cost of assessment? By how much? *
Are banks outsourcing loan assessment to fintech companies?
What is the share of banks' MSME loan assessments that are outsourced to fintechs? *

Monitoring
Is the internet and mobile banking used to monitor loan use and repayment?
What share of MSME lending is monitored with the internet or fintechs tools? *
Is monitoring being outsourced to fintech companies?

Peer-to-peer platforms (lending)
Do peer-to-peer lending platforms exist? How many? *
How much finance is provided annually through the platforms? *
What is the share of men and women recipients of such funding?
Are the platforms licensed and regulated?
Can/do MSMEs access platforms in other countries?
Is there any data on the ratio of applicants for funding versus recipients, disaggregated by sex? *
Is there any information on female investors?

Crowdfunding (equity)
Do crowd-funding platforms exist? How many? *
How much finance is provided through such platforms? *
Are the platforms regulated?
Are there legal provisions to allow platforms to operate?
What is the share of men and women beneficiaries of such funding?
Is there any data on the ratio of applicants for funding versus recipients, disaggregated by sex? *
Is there any information on female investors?

Investment account platforms
Are there investment account platforms in the country?
What is the volume of investment for MSMEs through IAPs?

Crypto currencies
Are MSMEs using these new currencies, such as Bitcoin?
For what types of transactions are they being used?
Are the currencies regulated in some way? Is there any information about the use of crypto currencies for MSME funding by women?

7 Business models and partnerships

SME departments and programmes in financial institutions
Do banks have dedicated MSMES departments or programmes? Are there dedicated support services for women entrepreneurs? Do banks have specific MSME products? Are there dedicated products for women? Do banks have simplified procedures for MSMEs? Do banks have specialists who received gender-responsive training? Is the share of MSME credit rising relative to other segments?*

Banks and MFIs: Reaching up, reaching down
How many banks are partnering with MFIs to serve small businesses? Are there partnerships to promote women’s entrepreneurship? How many MFIs are partnering with banks? In what ways are they partnering? What share of (i) banks’ and (ii) MFIs’ lending to MSME is through partnership arrangements?

Agent and correspondent banking
How many financial institutions agents and correspondents? What quantity of finance is provided to MSMEs in this way to men and women? Is it mostly used for savings/transactions or also applying for credit? Are MSMEs an important part of the clientele? What is the share (disaggregated by sex)?*

Business membership organizations (BMOs)
Do BMOs play a role in helping members to access credit? How many BMOs provide credit support for their members? Do BMO’s offer any assistance or training to improve the opportunities for women members? Do they assist with guaranteeing credit by financial institutions? Do they held bring MSMEs and lenders together (without guarantee)? Are their main functions on the demand side to assist MSMEs in knowing where to go and how to apply for credit? What is the volume of lending supported by BMOs?*

8 Demand-side support

Advising and training borrowers
What type of assistance is given to borrowers to obtain credit? What is the most important or significant type of assistance? What type of assistance is most sought after by MSMEs? What types of needs are not met? What types of organizations are providing this assistance? BMOs, central bank, ministry of finance, others.
How effective is this assistance and how is it evaluated?  
How many borrowers are trained year by all organizations?  
Are there specific programs targeting women entrepreneurs?  

Training lenders 
What types of programmes are provided to train financial institutions about lending to MSMEs?  
Which organizations provide this type of training? Central bank, ministry of finance, BMOs?  
What is the focus of the main programmes?  
Are there programs training lenders on gender-responsive lending?  
Are the programmes effective and how is effectiveness evaluated?  
How many people were trained each year (disaggregated by sex of trainee)?
Annex 2: Selected Studies and Documents on MSMEs

Country and regional strategies and actions plans


General studies of MSMEs


Financing MSMEs


Global value chains


Financial inclusion


Development finance institutions

Banks and MFI partnerships


Credit guarantees


Microenterprises

Credit information

Venture debt

Databases and Cross-Country Scoring

Gender


