Stories of Impact

Small and Medium Enterprises

Key Driver for Growth and Jobs in South Asia
Increasing Access to Finance

Facilitating Access to Markets

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International Finance Corporation
World Bank Group
Promoting Inclusion and Growth
Developing Competitive Firms in the Private Sector

Fifty-three percent of IFC's advisory portfolio in South Asia focuses on micro, small, and medium enterprises.

Between 2009 and 2012,

- IFC trained 233,000 entrepreneurs to be more efficient and productive
- More than 150,000 small and medium enterprises have received improved access to financial services
- Micro, small, and medium enterprises together generated $15 million in revenues

Forty million new jobs need to be created in South Asia by 2016[1] to absorb newcomers in the labor market. Small and medium enterprises will be the main providers of these jobs. Improving performance is critical to their success, making it easier for them to operate, expand, and generate business opportunities.

IFC has a decade of experience working with small and medium enterprises in this region, providing scalable and replicable solutions throughout the lifecycles of small businesses. In 2002, IFC established the SouthAsia Enterprise Development Facility to enhance performance, competitiveness, and growth of small and medium sized firms in Bangladesh, Bhutan, Nepal, and North East India.

IFC provides investment and advisory services to help small and medium enterprises through their entire life cycle - right from inception to growth and maturity. We do this by assisting in introducing regulatory reforms, building management skills and supporting access to finance and markets.

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IFC’s support during various stages of small and medium enterprise development
Hardworking entrepreneurs running successful smaller companies contribute to local economic growth. However, they face a range of challenges that constrain operations and growth:

**Access to Electricity**
As many as 23 million micro-enterprises and one million small and medium enterprises lack access to reliable electricity in South Asia.

**Access to Finance**
Nearly 37 million micro-enterprises including one million small and medium enterprises have limited or no access to finance in South Asia. Micro-enterprises face a credit gap of $280 billion to $340 billion while it is $30 billion to $40 billion for small and medium enterprises in the region.

**Access to Skills**
Limited availability of skilled labor reduces productivity and operational capabilities. Entrepreneurs also lack skills to expand and grow their business.

**Access to Markets**
Access to market opportunities has always affected the ability of micro, small and medium enterprises to grow and become more profitable.

**Enabling Environment**
Micro, small and medium enterprises face challenges at policy and operational levels throughout their lifecycles. Interventions are needed, both from the government and other private sector stakeholders to create an ecosystem that nurtures them.
IFC's Lighting Asia/India Program aims to provide safe, clean, and affordable off-grid electricity to 2 million people in rural India. The governments of United States and Italy are co-funding this initiative.
IFC focuses on selectively addressing the challenges of access to finance, markets and inclusion in South Asia. It leverages its global experience in improving investment climate, working with the financial sector and its relationships with lead firms and corporations.

**Increasing Access to Finance**

- IFC develops financial infrastructure and works with leading commercial banks, non-banking financial companies, and microfinance institutions in Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka to help them better serve the needs of small businesses.

- IFC works with BRAC Bank in Bangladesh to train its staff to use existing portfolio information to predict customer behavior. This has improved lending decisions and significantly reduced non-performing loans. Small business owners benefitted from faster turnaround time.

- IFC has supported an urban microfinance institution, Swadhaar, to conduct market research and define its strategy to expand into the micro-enterprise segment.
Facilitating Access to Markets

- IFC works with lead firms and market aggregators to reach a large pool of enterprises to introduce better business practices, upgrade standards, and enhance competitiveness.

- IFC’s interventions are based on an assessment of the performance gaps in the value chain focusing mainly on improving managerial and technical expertise of small businesses.

- Dialog, an IFC investee mobile telecommunications company in Sri Lanka, relies on a network of 55,000 retailers and distributors. Dialog is using IFC’s business tools such as SME Toolkit and Business Edge™ to increase integration within the network and improve the operational efficiencies of even its smallest distributors.

Promoting Inclusion and Growth

- In South Asia, there are 69 million informal units; many of them have the potential to grow. IFC works with governments to introduce reforms that make it easier for small and medium firms to do business.

- IFC works in state of Bihar, India to simplify business tax for small and large enterprises. In Bangladesh and India, IFC is making it easier for businesses to obtain trade licenses.

- In a unique eWaste recycling initiative in India, IFC has partnered with a private sector client, Attero, to integrate informal sector waste collectors into the formal sector.
An IFC global study on small and medium enterprise finance indicates that at least 40 percent of them in South Asia do not have access to any institutional sources of finance. The formal credit gap for small and medium enterprises in the region is an estimated $30 billion to $40 billion, with a total credit gap of $280 billion to $340 billion, including micro-enterprises.

Financial institutions have limited exposure to small businesses due to a “higher risk” perception and limited access of these enterprises to immovable collateral. As a result, the financial needs of small businesses are primarily met through informal sources of finance including moneylenders, friends and family, and chit funds, all of which charge significantly higher rates of interest than formal sources.

Almost all finance currently flowing into this sector in South Asia is debt, with little or no equity.

**IFC plays a leadership role in providing financing, as an advisor to the G-20 and through innovative products and services that support small and medium enterprises in frontier markets and low income states**
1. **Increasing Outreach to Micro-Enterprises**: IFC advises Utkarsh Micro Finance, an investee-client and a registered microfinance non-banking financial company working in the low income states of Uttar Pradesh and Bihar in India, to develop loan products for micro-enterprises. Utkarsh specifically serves customers that do not qualify for traditional microfinance. IFC helps Utkarsh develop policies, systems, and pilot projects in two cities of Uttar Pradesh. Through this, IFC estimates that Utkarsh will have the capacity to finance up to 20,000 micro-enterprises in three years.

2. **Strengthening Reach, Promoting Innovation**: IFC builds the capacity of commercial banks to develop tailored products and incorporate stronger risk management to expand operations to small and medium enterprises. IFC supports Bangladesh’s BRAC Bank to increase its business performance by using evaluation tools and sustainability reporting in small and medium enterprise finance. IFC engages with the bank’s staff and senior managers to strengthen evidence-based decision-making using these tools. IFC also supports National Development Bank in Sri Lanka to strengthen lending to small firms, with an additional sub-component on agricultural lending.

3. **Non-Financial Services to Foster Growth**: In addition to finance, small firms need business advice, skills, networking, and market opportunities to grow. IFC focuses on non-financial services and provides thought leadership to develop operational tools in this area. Since 2008, ICICI Bank, India’s largest private sector bank, using IFC’s SME Toolkit online platform to provide non-financial services and information to smaller enterprises. As of March 2013, more than 520,000 SMEs use the business directory feature making it an exciting business-to-business platform. In Sri Lanka, IFC supports National Development Bank to establish centers that facilitate banks’ direct engagement with their small and medium enterprise clients and provide them with tools, training, and business information to improve productivity. National Development Bank has opened five small business centers and is in the process of opening four more.

4. **Developing Credit Bureaus and Collateral Registries to Increase Transparency**: IFC has partnered with the Indian government’s central collateral registry, Central Registry of Securitisation Asset Reconstruction and Security Interest, to expand its ambit to include movables which will address the lack of collateral needed to access credit for small businesses that have few immovable assets. IFC will leverage its global experience with credit bureaus to grow the use of credit information for small and medium enterprises in South Asia. This will include supporting existing credit bureaus to increase use of non-traditional credit information (such as utility bills) to develop a comprehensive credit picture for small firms.
Building a Database of Clients to Improve Lending Decisions

Bangladesh’s small and medium enterprises are dynamic and offer a large number of private sector jobs. However, banks lack access to current information about the credit behavior of these enterprises that can help make informed lending decisions.

Bangladesh Bank in discussion with IFC, decided to take on the challenge to create and regularly update a comprehensive database. At the pilot stage, the database compiled information of 8,000 small and medium enterprises from 64 districts.

Financial institutions can use this database
- To strengthen internal processes
- Facilitate quality control
- Enable easy reporting to Bangladesh Bank thus reducing paper work
- Improve the utility of the database through benchmarking
- Develop focused strategies to target enterprises to provide financial services.

In addition, Bangladesh Bank can use the data to monitor their policy-level decisions, and improve lending to small and medium enterprises.

Traditional method of maintaining loan payment registers.
Left: Bangladesh's textile industry employs over 3.5 million people, 85 percent of whom are women.
Right: A small enterprise that receives credit from BRAC Bank, Bangladesh.
Helping Non-Banking Financial Companies Support Small Entrepreneurs

India’s 14 low-income states are home to more than 300 million poor. Many among them have promising entrepreneurial skills and just need someone to give them a chance. When banks turned down Rajasthan vegetable farmer Suvalal Palsania for a loan to buy a tractor, Au Financiers decided to give him one, since his cash flows and reputation were strong. It lent him Indian rupees 346,000 ($7,500) for the tractor and trailer that he now uses to get his produce to the market faster.

Au is a flexible non-banking financial company with a proven credit-risk methodology.

Au serves more than 100,000 clients, primarily unbanked people in rural Rajasthan who are ready to do something with their lives but are prevented from doing so as regular banks will not give them credit.

First-time vehicle purchasers are Au’s core market, but it also provides low-income housing finance, health, life, and vehicle insurance, micro, small and medium enterprise finance, and other products – often to the same clients as their needs grow.

IFC’s $7.6 million (Indian rupees 350 million) equity investment and advisory package in 2010 and again in 2012 was a stamp of approval for Au. It helped attract additional financing from other leading banks and a nomination for the 2011 Financial Times/IFC Sustainable Finance Awards in London.

IFC supports Au to better understand its target market and expand its reach to micro, small, and medium enterprises and agri-allied businesses in both existing and new geographies.

IFC also works with Magma Fincorp, and microfinance institutions such as Utkarsh and Swadhaar, to extend finance to micro and small enterprises.
In 2002, Girdhari Ram started his own transport company with a loan from Au Financiers. Since then, he expanded his business and now operates five commercial vehicles.

Suvalal Palsania got funding from Au Financiers to purchase a tractor.
Facilitating Access to Markets

Bridging the Gap

Through its private sector clients, IFC enhances the ability of small and medium businesses to access markets and integrate them into value chains. IFC also facilitates their increased access to energy/power, and basic infrastructure.

1. Facilitating Access to Value Chains for Small Firms: In South Asia, and globally, large firms often rely on a network of small businesses in their supply and distribution chains. Improving operational efficiencies and deepening integration within the value chain are key drivers of growth. On the other hand, small businesses struggle to access business information, training, and opportunities to grow their operations and remain competitive. Since 2007, IFC has worked with investee client Dialog Axiata Telecom in Sri Lanka, which relies on a network of 55,000 retailers and distributors across the country. Nearly 8,000 micro and small retailers have been trained on business management in local languages to improve their business skills. For Dialog, these trainings have resulted in more than $2.6 million of increased revenue from these retailers.

2. Building Management Skills of Small and Medium-sized Entrepreneurs: IFC focuses on addressing managerial skills gap through its proprietary training and information tools such as Business Edge™ and the SME Toolkit. These tools, adapted to local markets and languages, train small and medium enterprises on business management skills. So far, IFC through its accredited training partner firms, has trained 16,000 entrepreneurs in South Asia with these tools. Another approach to build management capacity has been to work at the sector level in India, where IFC has partnered with the National Institute for Entrepreneurship and Small Business Development, a training arm of India’s Ministry of Micro, Small and Medium Enterprise to deliver a country-wide trainer capacity building program.

3. Increasing Access to Electricity: Lack of access to electricity is the main constraint faced by both formal and informal micro, small, and medium enterprises. Unreliable or no electricity hampers operations and increases the cost of doing business. IFC has launched Lighting Asia/India Program, aimed at providing safe, clean, and affordable off-grid lighting to two million people living in rural India by 2015. The program is developing private off-grid lighting market in India across the entire value chain: manufacturing, distribution, supply chain management, and access to finance. IFC also facilitates better access to basic infrastructure through public-private partnerships.
A shop owner has been able to extend his working hours as a result of IFC’s Lighting Asia/India Program.

Mahinda Malgoda, a Sri Lankan small entrepreneur received SME toolkit training. He also accesses the toolkit online to improve business skills.
IFC Helps Develop Tourism Value Chains

Historically, the tourism business in Sri Lanka was owned by a few local conglomerates, who were reluctant to partner with small local businesses due to concerns of quality and reliability. On the other hand, small businesses found it difficult to attract high-spending tourists due to limited marketing reach and poor quality of goods and services offered.

IFC focused on Hikkaduwa district in southern Sri Lanka, which has the highest concentration of small and medium firms operating in the tourism sector.

IFC launched the Hikkaduwa Tourism Service Providers’ Association in 2008 to help develop a model that integrated small businesses into the value chains of larger conglomerates.

The association trained small industries to provide consistent quality of professional services and to reach out to a larger customer base through better marketing.

As a result, micro and small entrepreneurs can now access new business opportunities in the tourism value chain and register and formalize their businesses.

The project has, so far, led to the creation of 336 direct jobs and generated $1.1 million in revenue. Around 555 small and medium enterprises that provide tourism related services, including restaurants, transport, and traditional arts and crafts, are part of this project.
Top left, right and bottom left: Local service providers in restaurants, transport, and traditional crafts are part of the Tourism Association in Hikkaduwa.
Reducing Energy and Water Consumption in Washing-Dyeing-Finishing Sub-Sector

IFC’s interventions to reduce use of resources like energy and water are a pioneering initiative in Bangladesh. These interventions have shown that it is possible to adopt higher standards of resource efficiency and also save money.

Bangladesh’s textile industry is the second largest in the world and is the highest foreign currency earner for the country ($19 billion in 2011). It employs over 3.5 million workers, of whom 85 percent are women.

The washing-dyeing-finishing sub-sector of the textile industry has 1,700 units that employ 200,000 workers. It is growing at 10 percent per year. However, this sub-sector is also the second biggest polluter in the country, discharging 56 million tons of waste water, and 0.5 tons of sludge annually. This negatively impacts the lives of nearly 6 million people.

Washing-dyeing-finishing units use millions of liters of water every year, mostly from the Dhaka watershed where most factories are located. The water table here is receding one meter every year.

To make the sector less polluting and more efficient, IFC worked with trade associations, textile firms, buyers, and the government to provide a 360 degree solution to ensure that the textile industry can sustain growth, and gain a competitive advantage by working towards a cleaner, greener supply chain.

By December 2012, IFC had worked with 18 washing-dyeing-finishing plants to implement cleaner production processes.

IFC’s intervention resulted in saving 1.3 million cubic meters of water per year, $2 million in private sector savings, and reducing 32,000 metric tons per year of greenhouse-gas emissions.

The program now covers 52 of the 1,700 firms in the sector. Since these 52 units supply to large international firms, their experience could have a transformational impact on the sector.
IFC is helping reduce use of energy and water by promoting cleaner production technologies in Bangladesh’s textile industry.
Promoting Inclusion and Growth

Creating an Enabling Environment

IFC enables reforms to foster a better business environment for small and medium enterprises and improve the investment climate to help them register and become formal units. There are 69 million informal units in South Asia and many have the potential to grow. However, they lack a supportive ecosystem that nurtures growth.

IFC is simplifying business tax regimes in India’s Bihar state and Nepal to make it easier for small business to file taxes and become compliant. Once these firms come into the formal tax fold, it is easier for them to access loans, subsidies, and markets.

Trade licensing simplification reforms in Bangladesh help firms to reduce risk, cost, time, and facilitate easier access to information. Similarly, Nepal uses information technology, such as the newly-launched business license portal, to provide information on trade licensing to small and medium firms.

In another initiative in Bhutan, World Bank Group’s investment climate team, have launched an e-portal that will make it easier for businesses to obtain licenses and permits.

A worker in welding industry who has access to safety equipment and protective gear.

Manohar Singh Rajawat from Dausa district in state of Rajasthan, India, struggled to earn his living as a tent house laborer in 2007. Today, he runs his own tent house and owns five trucks. Formalization helps small entrepreneurs grow their business.
Workers dismantle electronic equipment at IFC investment and advisory client, Attero Recycling's, plant in Roorkee, India. IFC-Attero have partnered in a unique Clean e-India initiative to integrate informal sector waste collectors into a formal supply chain with access to safety equipment and workers’ rights.
Acquiring a trade license is the first step to starting a business – be it small or large. A large number of entrepreneurs in Bangladesh find it hard to acquire trade licenses due to lack of information, facilitation fees, and the time taken to issue them.

As a result, entrepreneurs in rural areas operate through informal units, which limits their access to finance, government subsidies, and skills to run a business efficiently.

IFC recommended a redesigned process to the government of Bangladesh that eliminated multiple reviews and defined the roles of government officials at municipality level and reduced time and costs for the applicant and the municipality.

Now, a trade license can be issued and renewed in half a day. Earlier, it took three days to issue a trade license and two days to renew it.

The government is now implementing this project in three municipalities of Bangladesh - Cox’s Bazaar, Gopalganj and Hobiganj, and will conduct an assessment to address all challenges before implementing it in all 312 municipalities in Bangladesh.
Young women in Bangladesh have better job prospects as they enhance their information technology skills.
Simplifying Tax Compliance for Small Firms, Improving Business Climate

IFC helped the Indian state of Bihar to simplify tax laws and procedures to reduce compliance issues and encourage small businesses to register as taxpayers, thus widening tax base, and improving business climate.

With IFC’s advice, Bihar state adopted several progressive measures such as a fixed rate of tax for micro and small enterprises with no routine scrutiny, online filing of returns for larger enterprises, simplified admission of appeals, and faster resolutions and refunds.

The project started in 2009 and by its closure in September 2013, the project recorded a 24 percent increase in the tax payer base. The number of tax payers filing e-returns has increased to 22,000 (from a base of 149 in 2009). 93 percent of tax revenue is collected electronically in Bihar now.

The number of small tax payers registered under a special, simplified scheme for small tax payers is at 6,800.

According to an appraisal by Indian Market Research Bureau, an international market research and consultancy firm, businesses in Bihar agree that tax compliance is less burdensome after reforms, and ease of doing business has improved.

Mohammad Mustafa runs a bangle store in Patna, Bihar and does not worry about closing shop when the tax authorities come for surprise checks as his business is formally registered now.
Shop owners in Patna, Bihar find it easier to do business after the introduction of a simpler tax regime for small businessmen.
In Nepal, entrepreneur Jackson Subeidi has found it easier to register a new business due to an improved investment climate. In the past, he had to make repeat visits to a government center. Recent improvements, supported by advisory services from IFC and World Bank Group, allowed him to launch his latest start-up Hipster Technologies quickly. Adding a new electronic database and filing system, the government’s Office of the Company Registrar has now registered 114,000 companies, most of them online.

IFC also supported Nepal to implement an e-portal to store business license information as part of the Nepal Investment Climate Reform Program.

Prior to the setting up of the license portal, small businesses in Nepal complained of limited or no access to authentic license information. A diagnostic study found that a total of 130 different types of licenses are issued by 41 agencies and departments. Over 70 percent of the licenses are issued at the central level, and the rest at district and municipal levels. Moreover, information on these business licenses was scattered across more than 60 websites, numerous publications, and citizen charters of multiple government agencies.

As a result, businesses had to visit multiple government offices and websites were forced to engage intermediaries, and were still unable to collect accurate and complete information.

The e-portal now provides easy access such as license name, purpose of the license, territorial coverage, issuing agency, license details, legal basis of the license, documentation and other requirements, license processing time, license validity period and renewal frequency, and relevant fees or charges.
Top left: IFC’s work with Nepal’s Office of the Company Registrar has helped register 114,000 companies.
Top Right: Improved business regulations helped Nepalese entrepreneur Jackson Subeidi to register his company, Hipster Technologies, faster.
Bottom: IFC assisted Nepal in establishing an e-portal, a one-stop platform for all license and tax information that is benefitting small businesses.
The Way Forward
Our Priorities, Next Steps

IFC will continue to:

- Increase access to finance for small businesses by helping banks and microfinance institutions expand lending and improve risk management
- Facilitate roll out of non-financial services in India’s low income states and frontier regions in South Asia
- Broaden focus on agribusiness to support small firms’ integration in the value chains of larger firms
- Work with local governments in creating the right environment for small and medium firms to operate and grow.
IFC will continue to deepen its engagement with small and medium enterprises in partnership with our private sector clients, especially in the least developed markets in South Asia.

IFC will help banks and microfinance institutions to increase lending to small and medium firms, improve risk management, and bring micro-enterprises into their fold. It will increase focus on non-financial services and provide thought leadership in this sector.

IFC will broaden its interventions, with a specific focus on agribusiness, to improve the ability of small and medium enterprises to access markets. Small enterprises can stay linked to market opportunities by being a part of the value chain of larger firms.

IFC will work with local governments to simplify and streamline small business registration and tax payment procedures and work towards the inclusion and formalization of smaller businesses.

There are an estimated 30 million micro, small, and medium enterprises in various industries, employing 69 million people. Accounting for 45 percent of the country’s industrial output, the sector has been growing consistently at 11.5 percent a year, higher than India’s overall economic growth. However, inadequate financing and market linkage have not allowed these businesses to grow sufficiently. IFC’s recent study, jointly undertaken with the Government of Japan, outlines potential interventions to address their biggest challenge of accessing finance.

The study estimates that financial institutions meet only one-fourth of the financing demand of micro, small, and medium enterprises in India, noting that a sizeable part of this huge unfulfilled opportunity is viable. The overall finance shortfall in the micro, small, and medium enterprise sector is around Indian rupees 20.9 trillion ($418 billion). Despite the increased financing to these businesses, formal sources are able to channel only Indian rupees seven trillion (nearly $200 billion). The study estimates that banks can easily address the sector’s debt and equity financing requirement of Indian rupees 3.57 trillion (nearly $105 billion). It recommends a mix of well-rounded fiscal support, strong policy framework, and incentives promoting innovation to expand formal financing to these enterprises.

Small and Medium Enterprise Gender Baseline Estimation for IFC’s Financial Market Portfolio in Nepal (November 2012)

In Nepal, women own about 14,300 small and medium enterprises, accounting for two percent of the country’s GDP and employing over 200,000 workers. IFC has released a study that finds women entrepreneurs could play a more significant role in Nepal’s economic growth if financial institutions address their financing needs with suitable offerings. The study pegs their current credit requirement at $106 million. The South Asia Enterprise Development Facility, managed by IFC, in partnership with UK Government and the Norwegian Agency for Development Cooperation, conducted the study.

The report suggests that women are more entrepreneurial than men, generating six percent higher profits on annual sales even though they operate smaller businesses. Access to financing remains their biggest hindrance because banks prefer fixed assets as collateral, which few women entrepreneurs possess. Other operational needs include improved access to markets and training for skill development. The study suggests credit rating and collateral registry should guide financial institutions, helping them tap into the $2.5 billion lending opportunity for small businesses.
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About IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines our policies. Working with private enterprises in more than 100 countries, we use our capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity. IFC leverages the power of the private sector to create jobs and tackle the world’s most pressing development challenges. IFC’s vision is that people should have the opportunity to escape poverty and improve their lives.