

Increasing Access to Rural Finance in Bangladesh

The Forgotten "Missing Middle"



THE WORLD BANK
Washington, D.C.

Contents

<i>Acknowledgments</i>	<i>xi</i>
<i>Abbreviations and Acronyms</i>	<i>xiii</i>
Executive Summary	1
Access to Finance: A Major Constraint on Rural Growth	2
Lending to the Missing Middle: Supply-Side Evidence	5
Lending to the Missing Middle: Demand-Side Evidence	5
Why Have Government Efforts to Increase Access to Finance Failed for the Missing Middle?	7
How Can the Government Facilitate Increased Access to Finance for the Missing Middle?	7
Chapter 1	The Missing Middle: Supply-Side Evidence
	11
	The Financial Sector
	11
	The Banking Sector
	13

	Government Efforts to Increase Rural Credit Lending to the Missing Middle	16 25
Chapter 2	The Missing Middle: Demand-Side Evidence	29
	Access to Credit for MSMEs	29
	Access to Credit for MSMFs	32
Chapter 3	Constraints on Increasing Access to Finance for the Missing Middle	39
	BKB's and RAKUB's Deep Insolvency	40
	Challenges for Private Banks	43
	Challenges for Microfinance Institutions	51
	Challenges for Insurance Providers Serving MSMFs	56
Chapter 4	Increasing Access to Finance for the Missing Middle	61
	Transforming BKB and RAKUB into the Main Providers of Financial Services in Rural Areas	62
	Helping Banks Serve Rural MSMEs	68
	Helping Microfinance Institutions Scale Up Lending to the Missing Middle	70
	Promoting Weather Risk Management for MSMFs	70
Appendix 1	Definitions Used in This Report	77
	Rural Areas	77
	Micro, Small, and Medium-Size Enterprises	77
	Marginal, Small, and Medium-Size Farmers	79
Appendix 2	Comparing Rural Lending in Bangladesh and India	81
Appendix 3	The Rural Micro, Small, and Medium-Size Enterprise Finance Survey	85
	Survey Questionnaire	85
	Sampling Frame	86

	Sample Selection	86
	Focus Group Discussions	88
	Basic Sample Data	88
Appendix 4	Recapitalization Scenarios and Costs of Closing BKB and RAKUB	91
	Costs of Recapitalizing BKB	91
	Costs of Rehabilitating BKB	94
	Costs of Recapitalizing RAKUB	95
	Costs of Rehabilitating RAKUB	98
	Costs of Closing BKB and RAKUB	98
Appendix 5	Movable Collateral System	101
	Creation of Security Interests	101
	Priority of Security Interests	102
	Publicity of Security Interests	105
	Enforcement of Security Interests	110
Appendix 6	Case Studies of Six Microfinance Institutions	115
	Methodology	115
	Selection of Institutions	115
	The Six Selected Institutions	116
	Lending by the Six Institutions	117
	Financial Performance of the Six Institutions	117
	Growth Prospects of the Six Institutions	125
Bibliography		127
Index		133