My congratulations and thanks to Mr. Ganeshan Wignaraja for his comprehensive, in-depth survey of the role the Asian SMEs play in output and trade activities, and of the financing and other challenges they face in fuller realization of their potentials. The issues raised in the survey’s roundup are indeed topical, more so for the growth aspiring frontier economies like Bangladesh. SME development figures high in Bangladesh government’s priorities for inclusive sustainable development; so does SME financing in Bangladesh Bank’s (BB’s) promotion of socially responsible inclusive financing.

Basel Rules imposing higher capital charges on bank lending to SMEs viewed as riskier than larger corporates may act to some extent as a disincentive for commercial banks; and the non-bank alternative options of financing through the Japanese Hometown Investment Trust Funds and other variants relevant for other local environments (like the NBFIs and regulated MFIs in Bangladesh) are already in varying extents of use. Partial credit guarantees are mitigating SME lending risks for bank in some countries; in Bangladesh one such scheme supported by UKDFID is expected to commence operation soon. Factoring, or trading in SME receivables, is also helping SMEs in Bangladesh and elsewhere by providing liquidity against their credit sales to upstream buyers in supply chains, reducing their needs for direct financing.

All these options are feasible and well worth promoting in the menu of options for fuller catering to SME financing needs, suitably adapted to specific country environments. However, in no way do these alternatives absolve commercial banks from their onus of engagement in socially beneficial SME lending on the plea of marginally higher costs from Basel Rules related capital charges. The substantially higher interest they earn on SME loans more than makes up for the marginally higher capital charge related costs. The culture in mainstream global commercial banking needs a major reorientation away from their pre- and post- global financial crisis tendencies of profiting from excessive risk taking, products mis-selling, rogue trading, sanctions busting, insider dealings and other transgressions incurring regulatory penalties as large as billions of dollars; towards socially responsible inclusive financing supporting SMEs and environmentally benign ‘green’ output initiatives. Concerns about the aberrant behavioral trends in banking have
started being voiced in the mainstream of the global financial services industry (cf., ‘Breaking Bad Banking’; The Banker, January 2015).

In Bangladesh we took up efforts of setting motivations right in our financial sector at the onset of global financial crisis; beginning with a CSR mainstreaming initiative eventually developing into a sustained thrust of ingraining an institutional ethos of socially responsible inclusive, environmentally benign financing. All banks and financial institutions in our financial sector, local and foreign, state owned and private, have responded positively with enthusiastic engagements in inclusive and green financing initiatives. BB’s policy support consists mainly of low cost refinance lines in modest amounts from within the parameters of cautious price stability focused monetary programs, and BB is also providing an enabling environment for cost efficient off branch financial services delivery. Outcomes thus far are very encouraging. Inclusive farm, non-farm SME financing by banks and NBFIs, solo or in partnerships with MFIs, in cluster based approaches with some gender bias favoring women entrepreneurs, now comprise nearly a third of total credit. This has helped uphold domestic output and domestic demand amid global growth slowdown during and following the global financial crisis. Aided by this inclusiveness in financing, Bangladesh economy is on a sustained stable six-plus percent average annual real GDP growth spell for well over a decade now; alongside low and declining inflation, rising income driving faster poverty decline, and solid gains in external sector viability.

Mr. Wignaraja’s presentation could usefully shed some light on the many ongoing streams of such socially responsible financing initiatives at country, regional and global levels; under such labels as impact investment funds, green bond funds and so forth. Like BB, most other central banks and financial sector authorities in frontier and emerging economies have launched promotion and policy support for inclusive financing of SME and other underserved real economy segments; they have joined hands in the AFI, a global platform for learning from each other’s approaches in various inclusive financing initiatives, inter alia including the devising of appropriately simplified SME lending risk evaluation routines without compromising on acceptable risk management standards. AFI’s ongoing interactions and engagements with the Basel based global standard setting bodies are facilitating shaping up of standards better tailored to fit ground realities proportionately with actual extents of risks in SME and other inclusive financing.

Going forward, success in sustainably propping up global output growth with inclusive financing of SMEs and other under-served segments of economic activities will hinge importantly on reorienting the institutional ethos of mainstream global commercial banking towards socially responsible inclusive, environmentally benign financing. With this needed culture shift, commercial banks and other financial institutions will be assessed not just on the basis of financial returns, but also duly taking into account the positive or negative outcomes in social and environmental returns. I look forward to future events like today’s joint IMF and JICA joint conference delving deeper into transforming institutional cultures in the financial sector firmly towards socially and environmentally responsible orientation.