Global Trends and Best Practices in SME Finance
MSMEs are at the heart of job creation, accounting for:

• 9/10 of all businesses worldwide
• 40% of GDP in emerging economies (*higher if we include informal MSMEs)
• 2/3 of all jobs worldwide

By the year 2030, 600 million jobs will need to be created to absorb the growing global workforce.

MSMEs need financing to grow: 131 million, or 41%, of formal MSMEs in developing countries have unmet financing needs.

The unmet demand for credit among MSMEs is estimated to be over US$5 trillion.

Women-owned businesses comprise 23% of MSMEs and account for 32% of the MSME finance gap. There are 1.2 billion young people aged 15 to 24 years, accounting for 16 per cent of the global population.
Access to finance is one of the greatest challenges facing MSMEs across the globe. Across emerging market regions, access to finance is a top 3\(^1\) obstacle to growth.

### Most serious obstacle to growth of SMEs

<table>
<thead>
<tr>
<th>Access to finance (availability and cost)</th>
<th>Sub-Saharan Africa</th>
<th>South Asia</th>
<th>East Asia</th>
<th>Latin America</th>
<th>Central Asia and Eastern Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>27</td>
<td>38</td>
<td>7</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Crime, theft and disorder</td>
<td>17</td>
<td>2</td>
<td>3</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Access to land</td>
<td>14</td>
<td>29</td>
<td>39</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>Corruption</td>
<td>7</td>
<td>4</td>
<td>2</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Practices of competitors in the informal sector</td>
<td>6</td>
<td>1</td>
<td>17</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Access to land</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Tax rates</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Transportation of goods, supplies and inputs</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Inadequately educated workforce</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>Courts</td>
<td>3</td>
<td>18</td>
<td>6</td>
<td>6</td>
<td>11</td>
</tr>
</tbody>
</table>

### Number of countries

- Sub-Saharan Africa: 38
- South Asia: 4
- East Asia: 9
- Latin America: 17
- Central Asia and Eastern Europe: 31

1 Exception is MENA.
2 Average medias; average are GDP weighted

Source: IFC/World Bank Enterprise Survey 2006-10; World Bank GDP 2008-10

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- 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion.
- 9 million SMEs in developing countries have unmet financing needs.
- Women, youth, start-ups are especially disadvantaged and its vital to support SMEs through “valley of death” and breaking the barriers to become bigger.
SME NEEDS

What SME clients want?

Most common unmet needs:

01. Access to Finance
- Unsecured/working capital finance
- Transactional solutions, trusted channels

02. Access to Markets
- Supply Chains Inclusion
- B2B and B2C networks, external markets

03. Access to Skills
- Technical/vocational capacity
- Business management training

04. Enabling Environment
- Digital ecosystems, alternate data leveraging
- Credit enhancement mechanisms
**LEADING TRENDS**

Digital Transformations are making SME banking more profitable and plausible

- **Income**
  - Cross sell: Higher products/customer with increase in digital adoption along with reduction in time to acquire new customers
  - Higher balances: Increase in number of transactions with increase in digital channels used, leading to higher balances
  - Fee income: Improved fee income from superstore

- **Costs**
  - Channel shift: Shift of customer interactions from branch to alternate channels leading to lower operating costs
  - Leaner branch: Reduction in branch workload, decrease in physical transaction volumes
  - Leaner back office: Increase in STP due through digitization of internal processes, reduced back/mid-office workload

- **Customer**
  - Satisfaction index: Improvement in retention, customer satisfaction and customer led advocacy

SOURCE: IFC Experts, SME Finance Forum
Digital Banks starting to target SME sectors to gain profitability

Only 20 identified as profitable, and half based in APAC

Total # of digital banks globally

431 companies

Digital-only offerings from digital challenger banks

SOURCE: BCG FinTech Control Tower, BCG analysis
LEADING TRENDS

Embedded Finance is SME segment revenue growth and wallet share pretention solution

**Definition and Scope**

**Definition:** The integration of financial products or services into the business model and operations of real sector services or products, which enhancements to or transformations of real sector value propositions

Financial Products & Services

Short term unsecured loan
Hire-purchase agreement
Travel insurance

Real Sector Products & Services

Retail Department Store
Equipment Reseller
On-line flight booking

End Clients

Consumer
SME

**SME Revenue Attribution**

<table>
<thead>
<tr>
<th>2020</th>
<th>2025 Forecasted SME Banking Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current SME Banking Revenue $291 bn</td>
<td>$469 bn</td>
</tr>
<tr>
<td>Traditional Banking Channels $377 bn</td>
<td>$345 bn</td>
</tr>
<tr>
<td>Embedded Finance Model $86 bn baseline growth</td>
<td>$32 bn</td>
</tr>
</tbody>
</table>

A | B

Revenue growth potential from embedded finance offerings
Revenue at stake from embedded finance offerings
Revenue generated via traditional banking channels

**2020**

- Revenue growth potential from embedded finance offerings
- Revenue at stake from embedded finance offerings
- Revenue generated via traditional banking channels

**SOURCE:** SME Finance Forum/IFC/G20 GPFI: Innovations in Financial Services for Micro, Small and Medium-Sized Enterprises

**SOURCE:** Accenture: Embedded finance for SMEs:
LEADING TRENDS

Alternate Data, alternate lenders, Fintechs playing an increasing important role

Alternate Data

- **Company registration**
  1. Incorporation details
  2. KYC details
  3. Business overview
  4. Blacklist checks

- **Director/shareholder**
  1. Ultimate Beneficial Owner (UBO) report
  2. KYC checks on company owners
  3. Bureau checks
  4. Blacklist checks

- **Credit Bureau**
  1. Payment performance delinquency
  2. Leverage, product holding
  3. Credit risk information

- **Banking data**
  1. Balance-build up and movement
  2. Transaction information
  3. Category wise transaction
  4. Debit/credit-count, amount Bank

- **Financial data**
  1. Trend-Profit/Sales/Net worth Trend
  2. Liquidity/Coverage/Leverage
  3. Turnover/Profitability

- **Goods and Services Task (GST)**
  1. Sales/purchase/return
  2. Current Year/Previous Year
  3. Top suppliers and Top Customers details
  4. Late Fee/Delays in Payment

- **360 Customer View**

**SOURCE:** Experian presentation for SME Finance Forum, June 2020

Fintechs for SMEs

- **Supplier loyalty**
  - Ebury
  - Transpay
  - Ripple
  - Dovetail
  - Payoneer
  - Traxpay
  - Currencycloud
  - WorldFirst

- **Cross-border and B2B payments**
  - OnDeck
  - Funding Circle
  - Market Invoice
  - Kabbage
  - iwoca
  - Ezbob

- **Aggregator platforms, and data and analytics**
  - Validis
  - Plaid
  - Yodlee
  - DueDil
  - MX
  - Group

- **Robotics and AI**
  - Blue Prism
  - Automation Anywhere

- **Cash flow management**
  - Xero
  - Holvi

- **Know Your Customer (KYC) identify and verification**
  - Veriich
  - Invoice2Go
  - Viewpost
  - TrustWeaver
  - Taulia

- **Invoicing**
  - Ebury
  - Transpay
  - Traxpay

- **Accounting**
  - Xero
  - Holvi

LEADING TRENDS

There is no net-zero without sustainable SMEs, women & youth increased inclusion imperative

Sustainable SMEs

- Environmental
  - Climate change mitigation
  - Low Carbon
  - Climate change adaptation
- Biodiversity
- Blue finance (oceans & water)
- Other environmental

Social

Governance/Other SDCs

Inclusive SME Finance

- Cannot Wait 1.5 centuries
  - At the current rate of progress, it will take 151 years to close the gender gap in economic participation and opportunity.\(^5\)

- Legal Rights
  - A typical woman has just three-quarters of the legal rights of men in the areas measured.\(^5\)

- Mobile Gender Gap
  - In low- and middle-income countries, women are:
    - 16% less likely than men to use mobile internet,
    - 18% less likely than men to own a smartphone.\(^6\)

- Account Ownership
  - In developing countries, 68% of women have accounts compared to 74% of men.\(^7\)

- Account Utilization\(^7\)
  - Saved at a financial institution:
    - Women: 23%,
    - Men: 26%,
  - Borrowed:
    - Women: 21%,
    - Men: 25%

- Access to Finance
  - The dollar investment in women business founders still represents a minor share of the amount directed towards men-founded businesses. The number remained at 2% in 2021, unchanged from 2020.\(^3\)

\(^5\) Women, Business and the Law 2022,
\(^6\) GSMA, The Mobile Gender Gap Report 2022,
\(^7\) World Bank, Global Findex Database 2021.
LEADING TRENDS

SCF for SMEs is >1$ Trillion opportunity

SCF for SMEs, Key Constraints

Regulators
- Secured transactions
- Factoring laws
- E-invoicing
- E-signatures

FinTechs
- Data security
- Scalability
- Entry barriers / partnerships
- Funding

Banks/FIs
- Technical knowhow
- Risk mitigation
- Onboarding
- Product diversification

Real Sector
- Working capital mngt
- Credit and ops costs
- Long tail of the chain
- Ops and fin capacity

Source: IFC, Supply Chain Finance Knowledge Guide
## LEADING TRENDS

### Cohesive Enabling Environment and Non-Financial Services critical

<table>
<thead>
<tr>
<th>Enabling Environment Salient Features</th>
<th>Non-Financial Services Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulations</td>
<td>% of banks-respondents</td>
</tr>
<tr>
<td>• Country specific strategies</td>
<td>94%</td>
</tr>
<tr>
<td>• Legal and regulatory framework</td>
<td></td>
</tr>
<tr>
<td>• Licensing regimes, Capital Markets</td>
<td></td>
</tr>
<tr>
<td>• Digital IDs, e-KYC</td>
<td></td>
</tr>
<tr>
<td>• Foreclosure/Insolvency</td>
<td></td>
</tr>
<tr>
<td>• Consumer protection, cyber security</td>
<td></td>
</tr>
<tr>
<td>Financial infrastructure</td>
<td></td>
</tr>
<tr>
<td>• Credit Bureaus</td>
<td>69%</td>
</tr>
<tr>
<td>• Secured Transactions</td>
<td></td>
</tr>
<tr>
<td>• E-Invoicing</td>
<td></td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td></td>
</tr>
<tr>
<td>• Partial credit guarantee schemes</td>
<td>50%</td>
</tr>
<tr>
<td>• Insurance products</td>
<td></td>
</tr>
<tr>
<td>New Trends</td>
<td></td>
</tr>
<tr>
<td>• Open Finance; Open Banking</td>
<td>44%</td>
</tr>
<tr>
<td>• Machine Learnings</td>
<td></td>
</tr>
<tr>
<td>• Big Data</td>
<td></td>
</tr>
<tr>
<td>• Block Chain/DL</td>
<td></td>
</tr>
<tr>
<td>• GenAI</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Why Banks in Emerging Markets Increasingly Providing Non-financial Services to Small and Medium Enterprises, IFC.2011 [sample includes 21 banks in Emerging Markets]
SUMMARY OF FUTURE ENABLERS

SME Finance key enablers for future

**Digital and Embedded Finance**
Digital Banks, Embedded Finance, GenAI, Analytics, blockchain, customer experience, digital processing

**Alternate Data**
Trusted Scores, Scoring models, propensity scoring, value chains data modelling, transactional

**Sustainable SMEs**
ESG practices, emission reduction and resilience, renewable energy, energy efficiency, Greening SMEs, Technology

**Women & Youth**
Women Entrepreneurship, gender desegregated data, start-ups, fintech ecosystems

**Supply Chain Finance**
Tailored vendor finance and distributor finance programs, green SCF, wider product range, inclusive value chains

**Non-Financial Services**
NFS, Skills, Responsible Banking, Marketplaces, standards conformity etc.

**New Enabling Environment**
Open Banking, Open Finance, Trusted Credentials, E-invoicing

SOURCE: SME Finance Forum
SME FINANCE FORUM

2010
G20 Leaders commitment to build SME Finance Forum at Seoul Summit
• IFC asked to manage, create “sustainable legacy”

2012
Soft launch at OECD event
• Initial seed funding, team mobilized

2013-2015
Platform and partnerships built
• Early 2015: G20 approval for global membership network
• Late 2015: First Global SME Finance Forum Conference (Turkey)

2016
Inaugural year of membership network (81 members by end of year)

2023
7th Anniversary
• 240 members/partners, headquartered in 90+ countries with global presence

SOURCE: SME Finance Forum
MEMBERS PROFILE

240 members operate worldwide
Serving more than 33 million MSMEs clients
Providing more than US$140 billion in financing
Managing total assets of more than US$7.9 trillion.

BY TYPE

- NBFI/MFI: 15%
- Fintech without lending operations: 10%
- Fintech with lending operations: 18%
- DFI: 17%
- Credit Guarantee Institution: 6%
- Commercial Bank: 34%

SOURCE: SME Finance Forum

BY GEOGRAPHIC LOCATION

- SSA: 20.40%
- North America: 11.94%
- South Asia: 11.94%
- EAP: 21.89%
- ECA: 19.40%
- MENA: 8.96%
- LAC: 4.98%

We have 60+ market leading global/regional partner institutions
KEY SERVICES AND BENEFITS

OUR IMPACT IN 2023

78% of members reported gaining new knowledge

36% of SMEFF made new business partnerships

12% made or received new investments

37% engaged in productive dialogue with policy makers

LEARN

• Monthly webinar
• Monthly Market-Watch
• Communities of practice
• Leader Dialogue Series
• Global/Regional/Country events
• Members’ Exclusive Portal
• Surveys
• SME data sets
• Online library/Publications
• LinkedIn discussions

SOURCE: SME Finance Forum

LINK

• Networking
• SME Finance Virtual Marketplace
• Immersion Program
• Study Visit/Sessions
• Contacts brokering

LEAD

• Connecting industry with policy-makers
• Voice in key policy bodies:
  G20, AFI, APEC/ABAC, Basel institutions, OECD
• Global SME Finance Forum Awards (since 2018)
Women’s Entrepreneurship Finance
Share knowledge and best practices, tools and innovative products to facilitate increased services to W-SMEs.

Supply Chain Finance
Develops a supportive and innovative community of SME finance professionals dedicated to expanding access to financing for SMEs through Supply Chain Financing solutions.

Domestic and International Development Finance Institutions
Share their learning and experiences with one another as well as to explore ways they could collaborate and explore partnership.

Digital & Embedded Finance
Innovations across Digital Banks, Fintech collaboration, Embedded Finance, Alternate Data.

Risk Management
A group that brings together professionals and risk management experts from member institutions to share their learning, experiences, and good practices examples with their peers.

SME Green Finance
Focuses on the challenges and opportunities of extending green finance to the SME sector. It covers all aspects of environmentally sustainable SME finance, including green finance, blue finance, and finance for climate change resilience.

AgriFinance
Discuss and document recent innovations in the sector. It promotes learning and sharing of good practice examples that help improve services to agri-SMEs. It will cover: Alternative data, Platforms connecting farmers to inputs and markets, Long term finance, Insurance solutions, Cooperatives, among others.
LEARN, LINK AND LEAD

Website
5,400+
Digital resources (blogs, publications, articles, etc.)

LinkedIn
17,300+
Discussion group
10,000+
Followers

Twitter
7,400+
Followers

Facebook
1.5K
Followers

Vimeo
450 videos
Innovations, Tutorials, Thought leaders

Research
119
Publications, Data from SMEFF and Industry

Awards
30+
Annual Awards, 4 categories,

Accelerating Finance for SMEs

Global SME Finance 2023
30 Winners, from 28 institutions
Accelerating finance for business

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