

Innovative Mechanisms for Financing MSMEs: FinTech Solutions and Policy Actions in Asia

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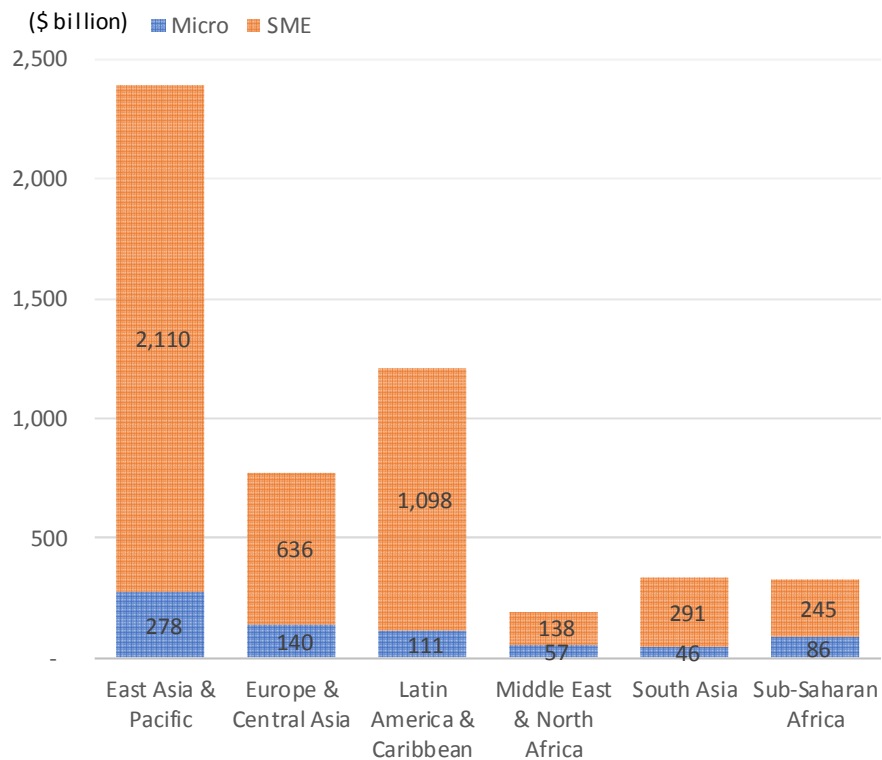
Asian Development Bank

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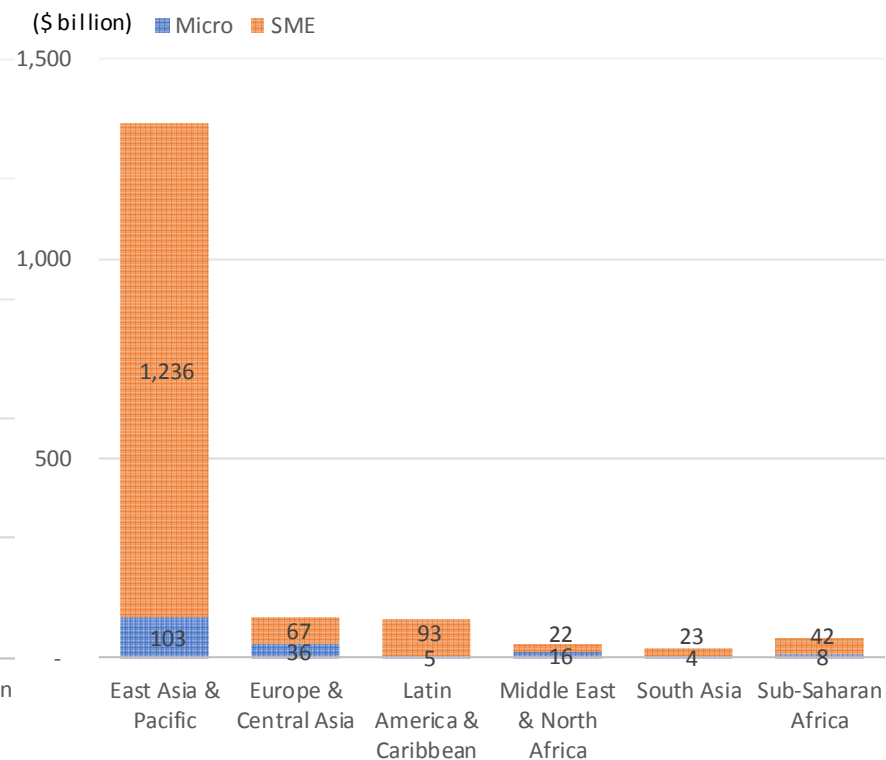


MSMEs in developing Asia, especially women-led MSMEs, have faced the highest financing gap in the world.

MSME Finance Gap in Developing Economies



Women-led MSME Finance Gap in Developing Economies

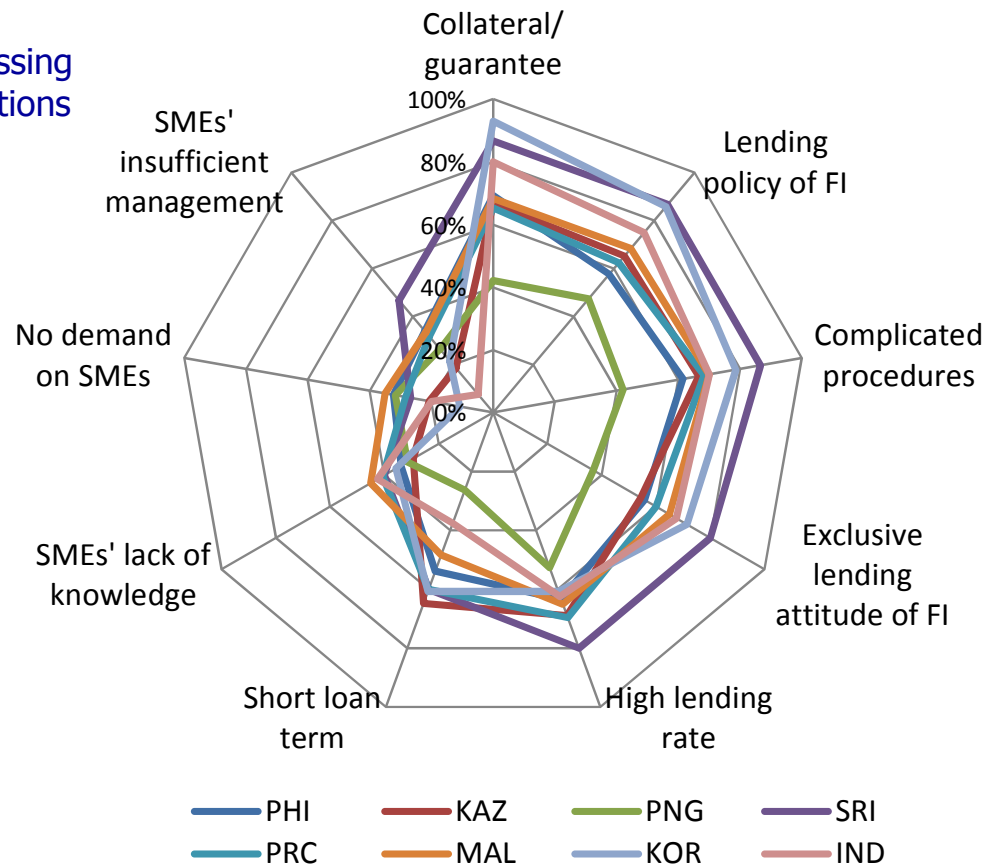


Source: Recomposed from IFC, 2017. MSME Finance Gap.



Both supply-side and demand-side factors constrain access to finance.

Barriers to Accessing Financial Institutions

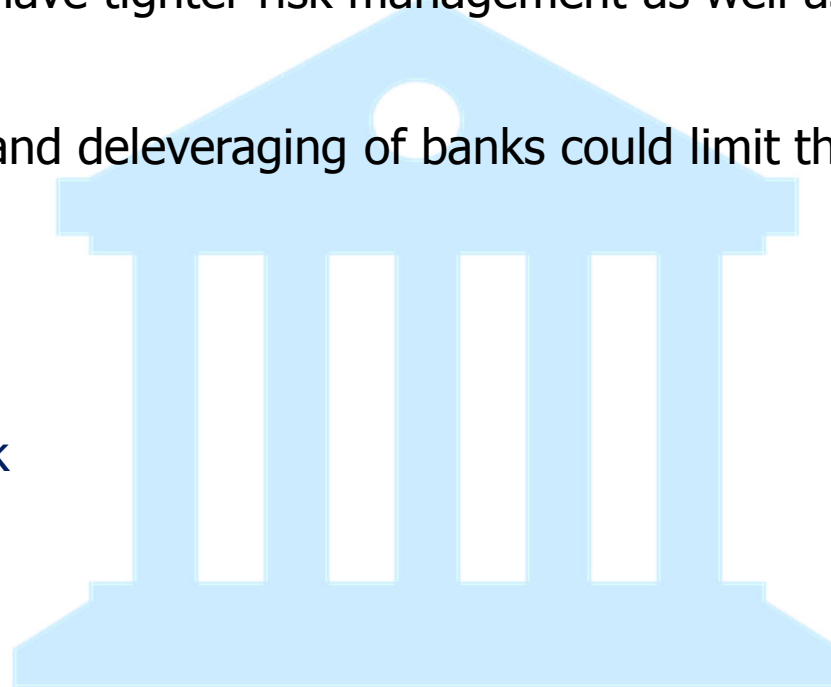


Notes: Percentage as the share of SMEs that answered yes plus somewhat yes from five scale scores (yes, somewhat yes, neutral, somewhat no, and no) about barriers to access finance. Valid samples: the Philippines (PHI): 63; Kazakhstan (KAZ): 98; Papua New Guinea (PNG): 19; Sri Lanka (SRI): 15; People's Republic of China (PRC): 303; Malaysia (MAL): 60; Republic of Korea (KOR): 28; India (IND):40.
Source: Author's compilation.



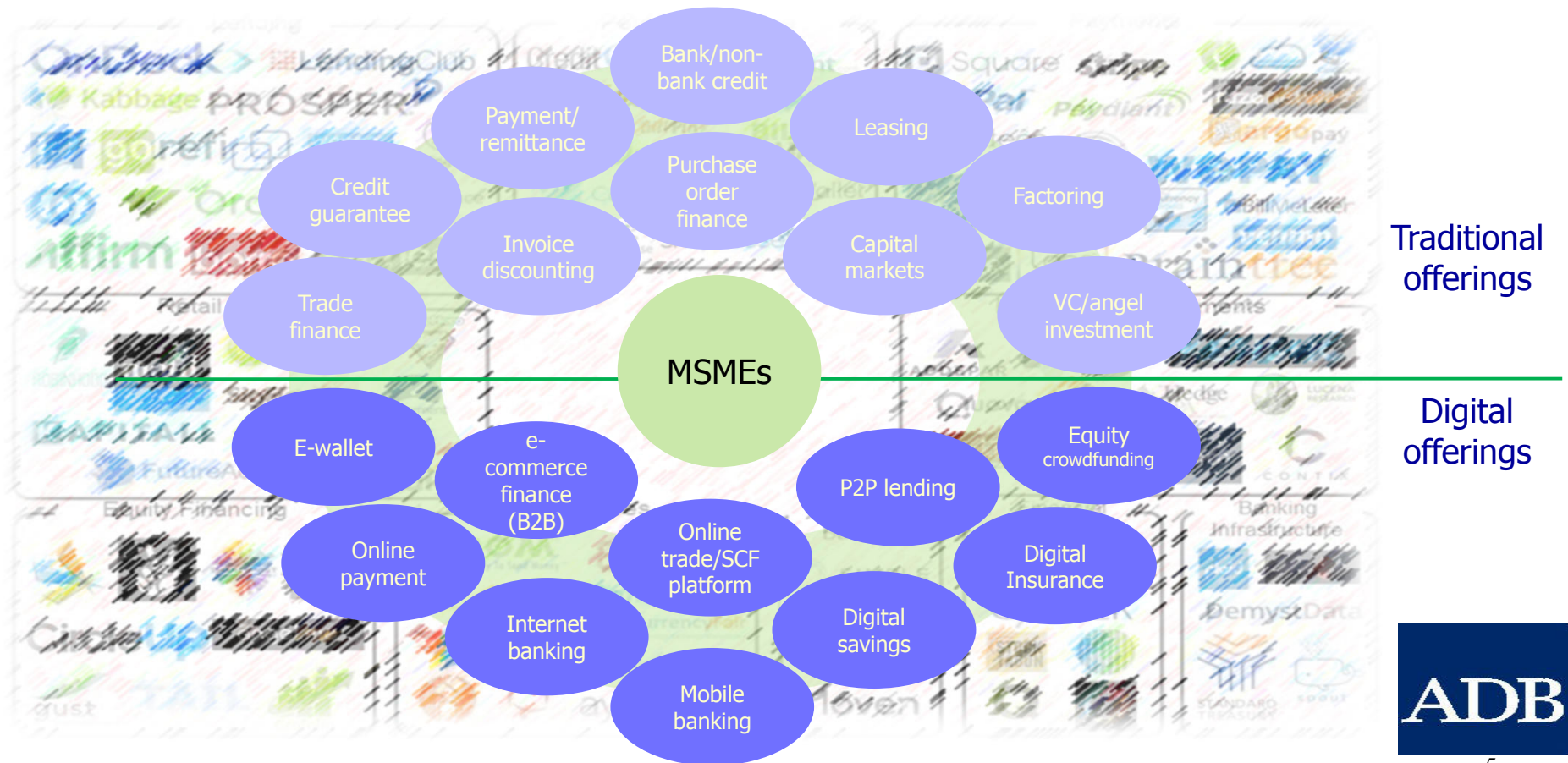
Strict banking regulation may be a contributing factor.

- Basel III may negatively affect banks' lending attitude to SMEs.
 - ✓ Basel III requires banks to have tighter risk management as well as greater capital and liquidity.
 - ✓ Resulting asset preference and deleveraging of banks could limit the availability of funding for SMEs.
 - Capital requirements
 - Liquidity framework
 - Leverage ratio framework



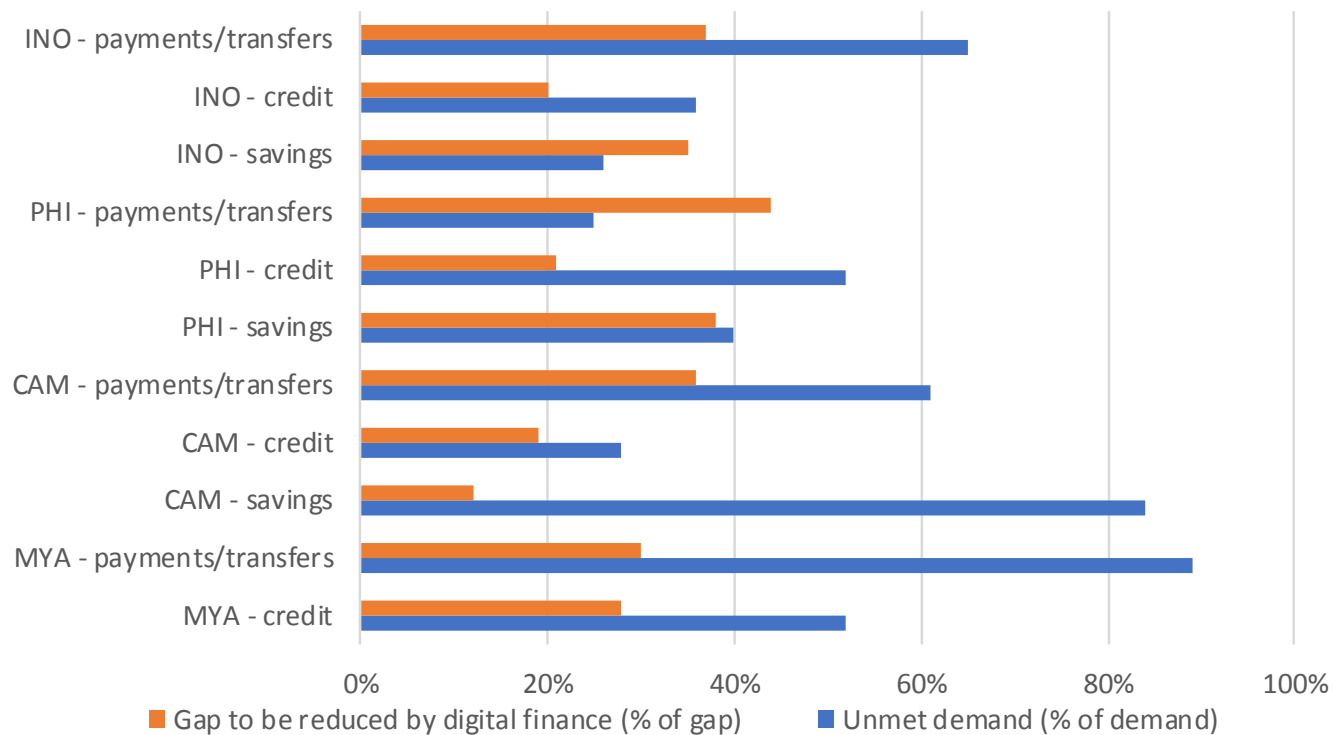
MSMEs as main beneficiaries of FinTech.

New players & alternative finance products have been emerging.



Digital finance highly contributes to reducing financing gap in developing Asia.

Potential Impact of Digital Finance on Access to Finance in Asia

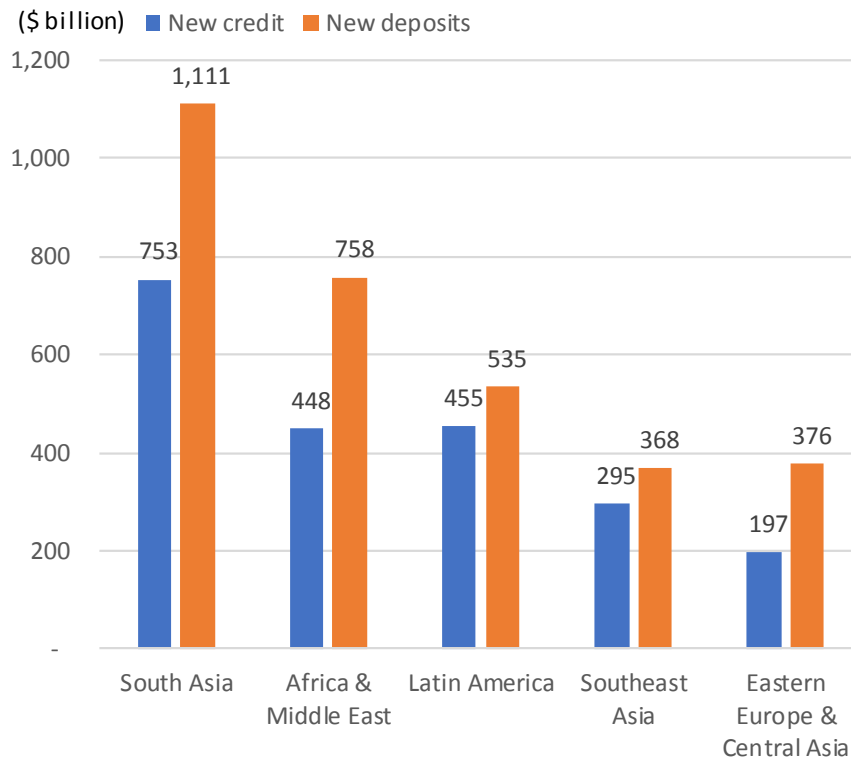


Source: Recomposed from ADB, 2017. Accelerating Financial Inclusion in Southeast Asia with Digital Finance.
 INO=Indonesia, PHI=Philippines, CAM=Cambodia, MYA=Myanmar.



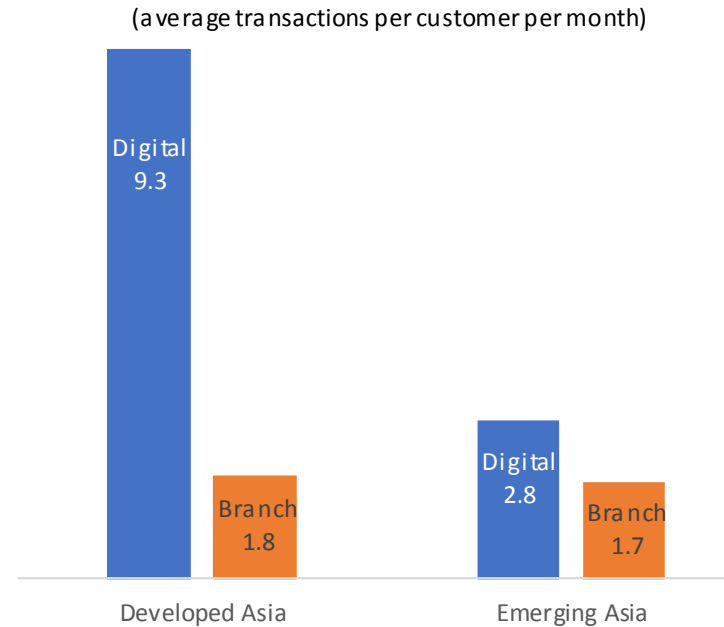
Digital finance can create \$2.1 trillion in new credit and \$4.2 trillion in new deposits globally.

South Asia has the highest potential of benefits from DFS.



Source: Recomposed from Mckinsey Global Institute, 2016. Digital Finance for All. DFS=digital financial services.

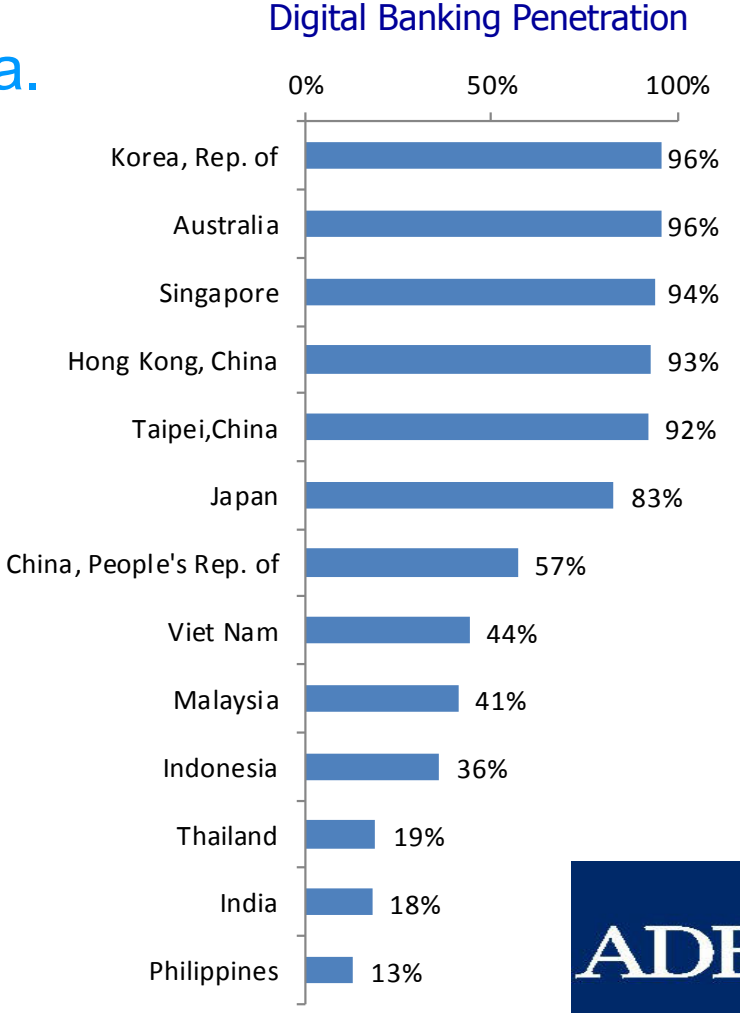
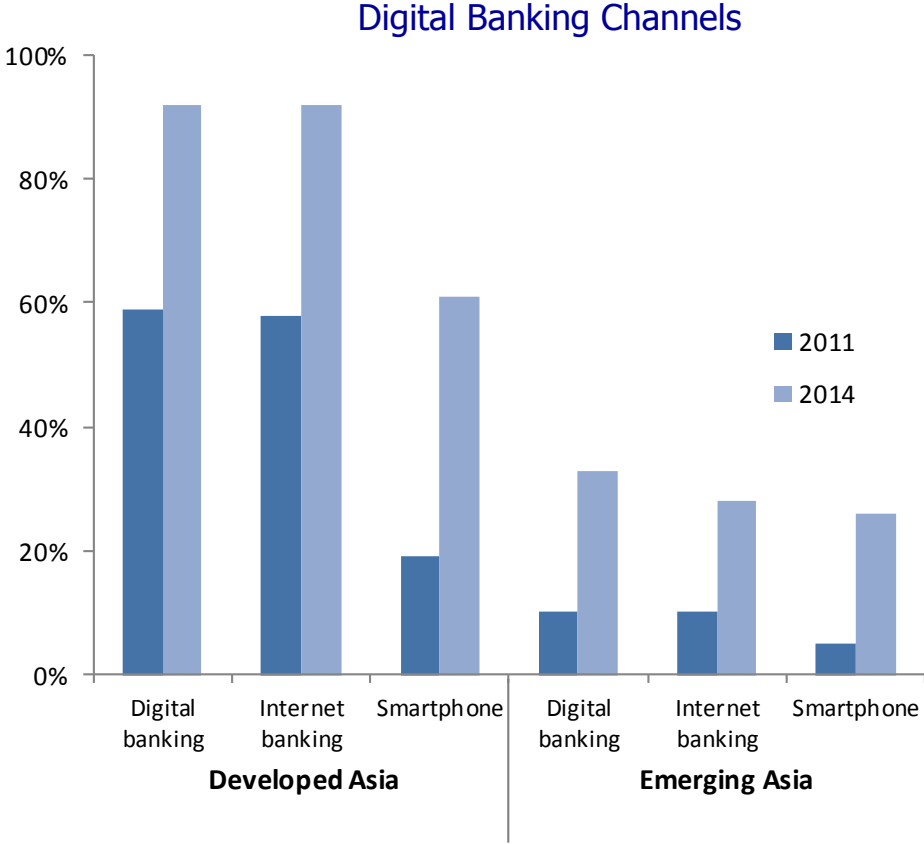
Digital channels are more actively utilized than bank branches for daily transactions in Asia.



Source: Recomposed from Mckinsey&Co., 2018. Asia's digital banking race: Giving customers what they want.



Digital banking has an increasing trend but still low penetration in developing Asia.



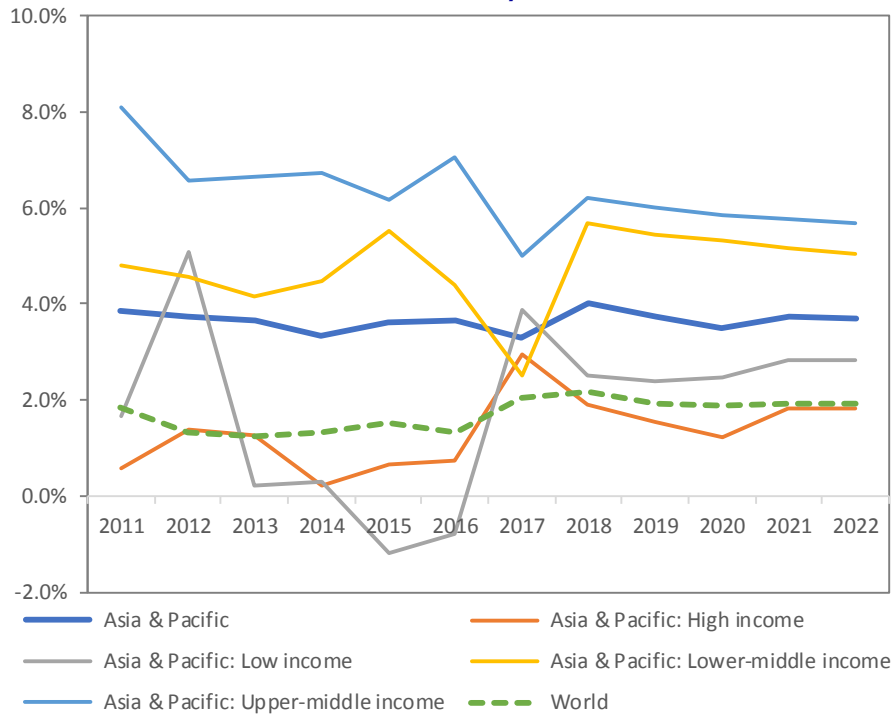
Source: Recomposed from Mckinsey&Co., 2015. Digital Banking in Asia: What do customers really want?.



Business Opportunities for MSMEs

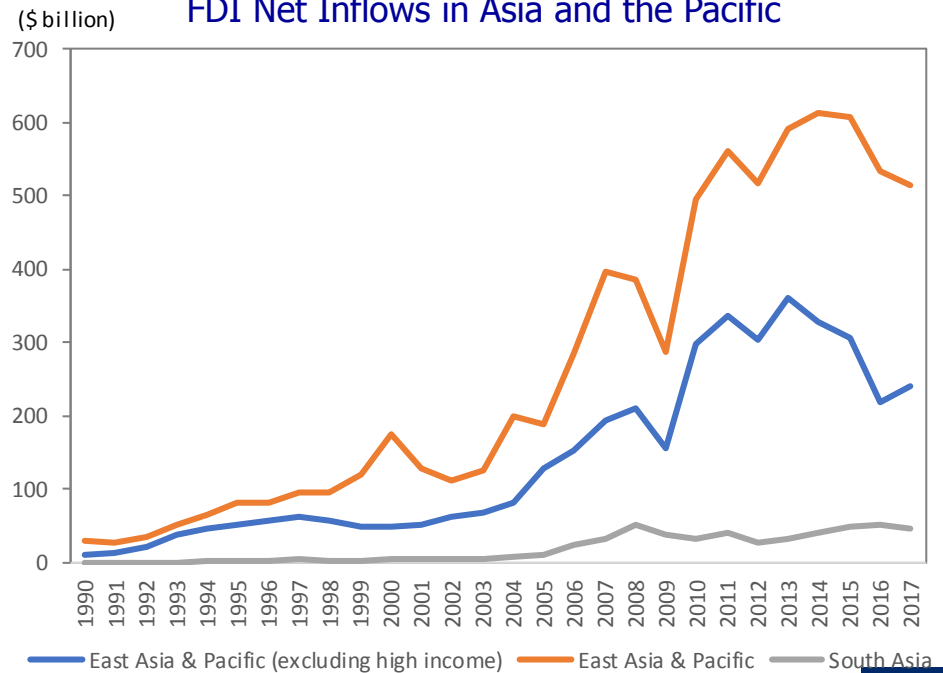
- Labor productivity growth is slowing in developing Asia and estimated to continue.
- FDI inflows to Asia create opportunities for MSMEs to increase productivity.

Labor Productivity Growth



Source: Calculated based on ILOSTAT database. Output per worker (GDP constant 2010 US \$). ILO modelled estimates.

FDI Net Inflows in Asia and the Pacific



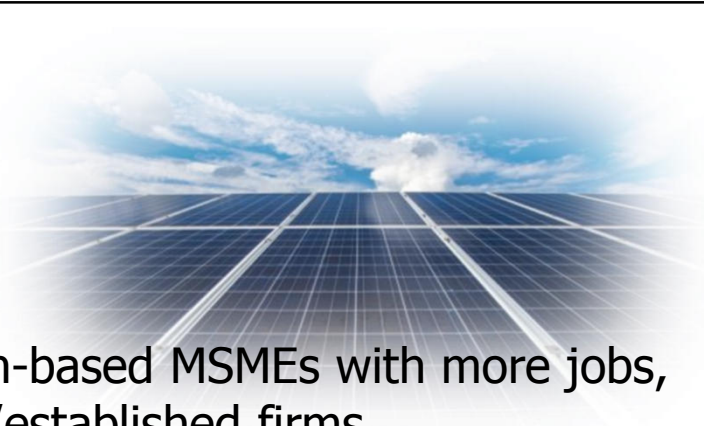
Source: Recomposed from World Development Indicators, The World Bank. BoP, current US\$ billion.



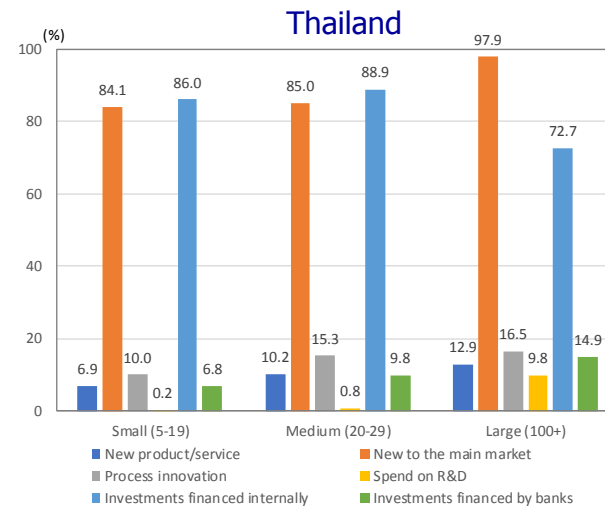
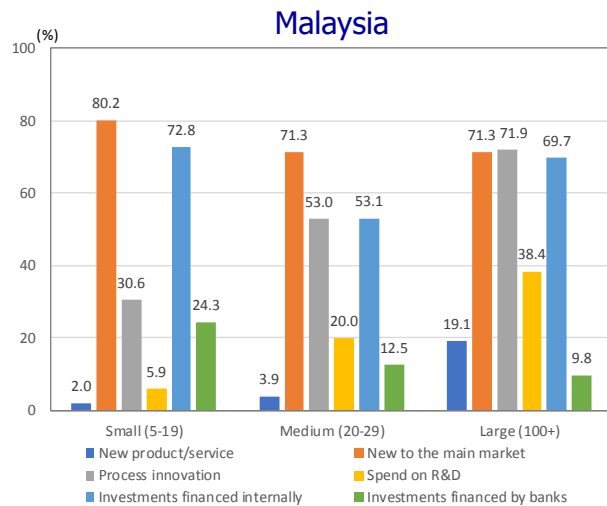
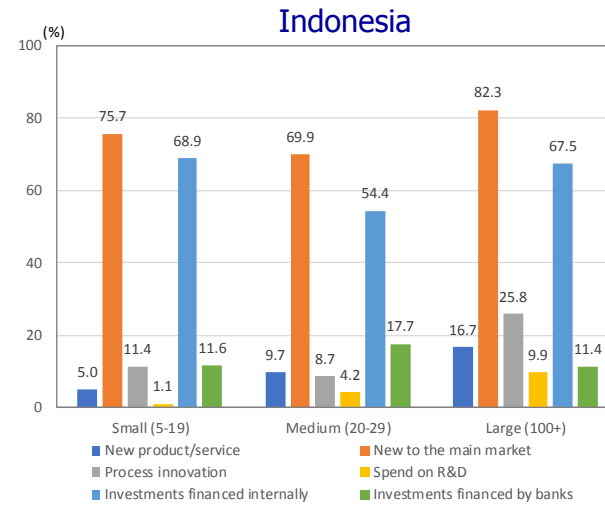
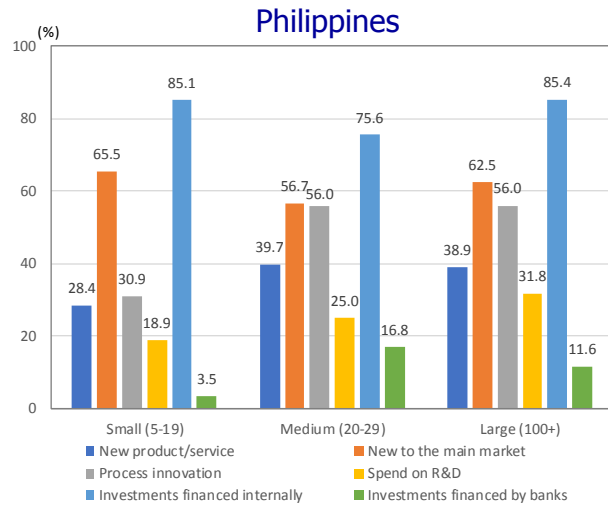


Tech-based MSMEs

- The **Fourth Industrial Revolution** can create more tech-based MSMEs with more jobs, while the potential of reducing workforces from large/established firms.
- Tech-based MSMEs play a critical role of increasing **national productivity**, benefitting from FDI and active participation in global value chains.
- MSMEs' innovation capability requires investment in R&D, human capital, and technology transfer & commercialization, suggesting the need for more **market-based financing options**.



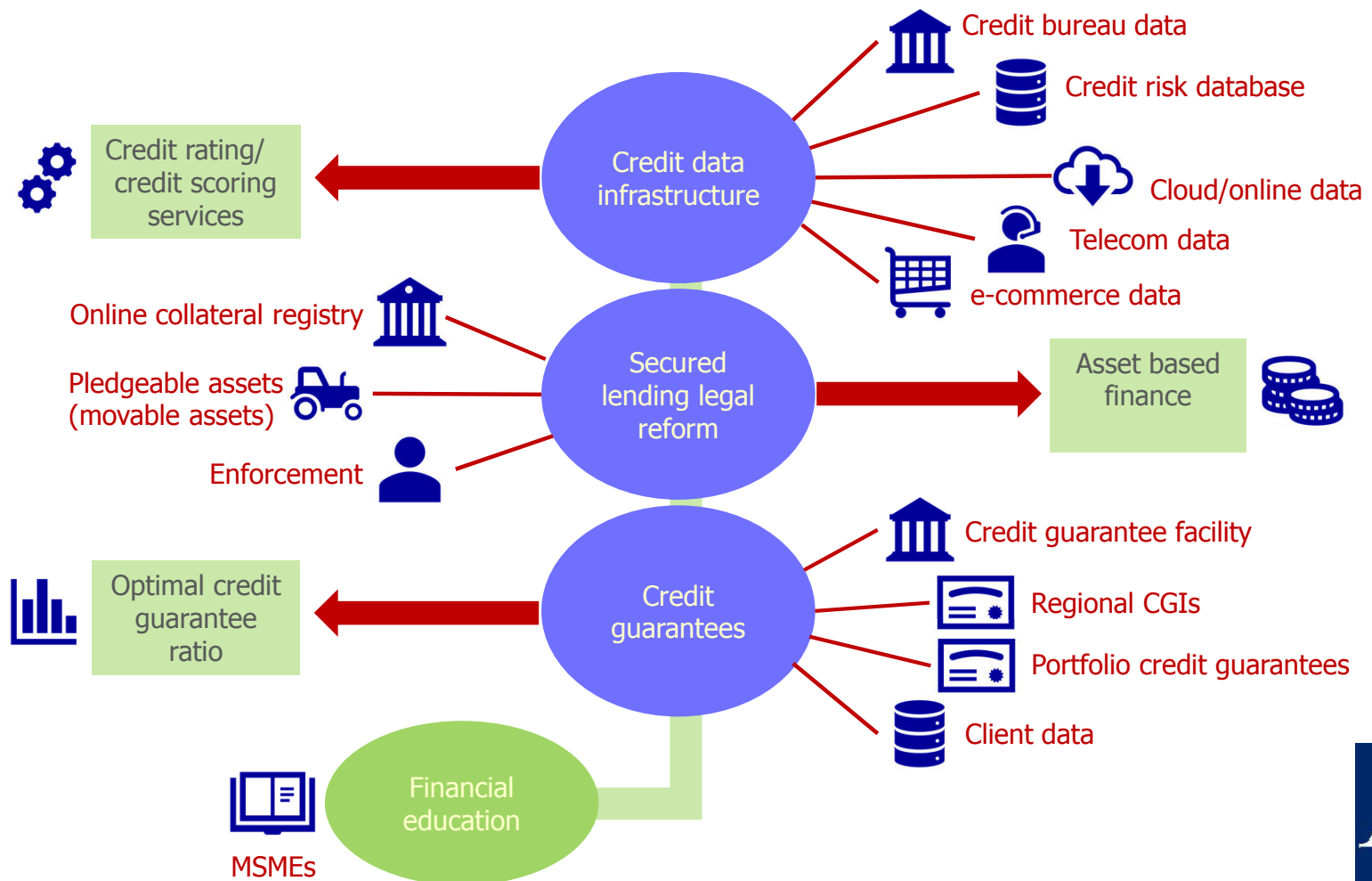
Low investment in R&D makes MSMEs' innovation capability remain weak.



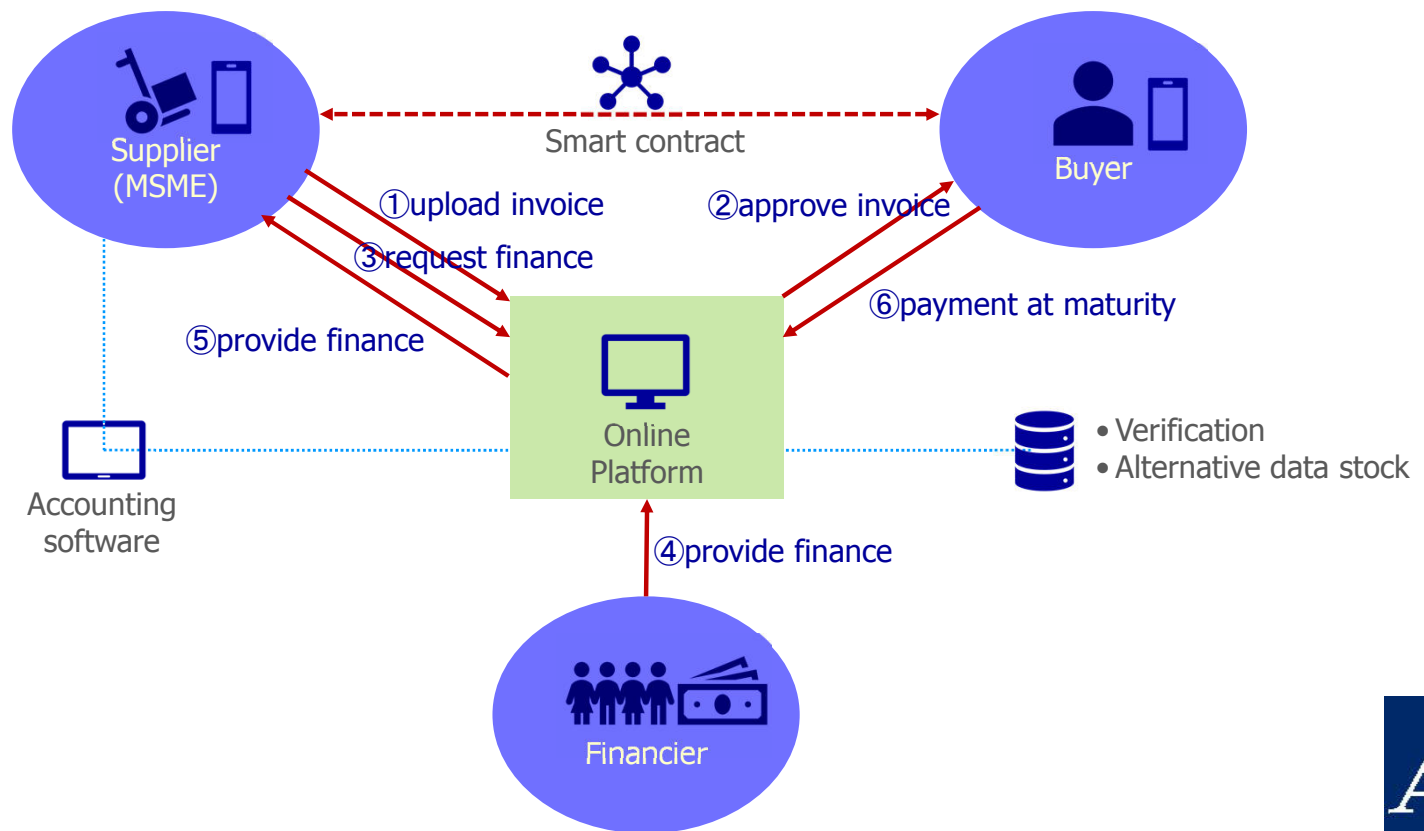
Source: Recomposed from World Bank Enterprise Surveys Data. PHI (2015), INO (2015), MAL (2015), and THA (2016). First four items: % of firms; last two items: proportion of investments (%).



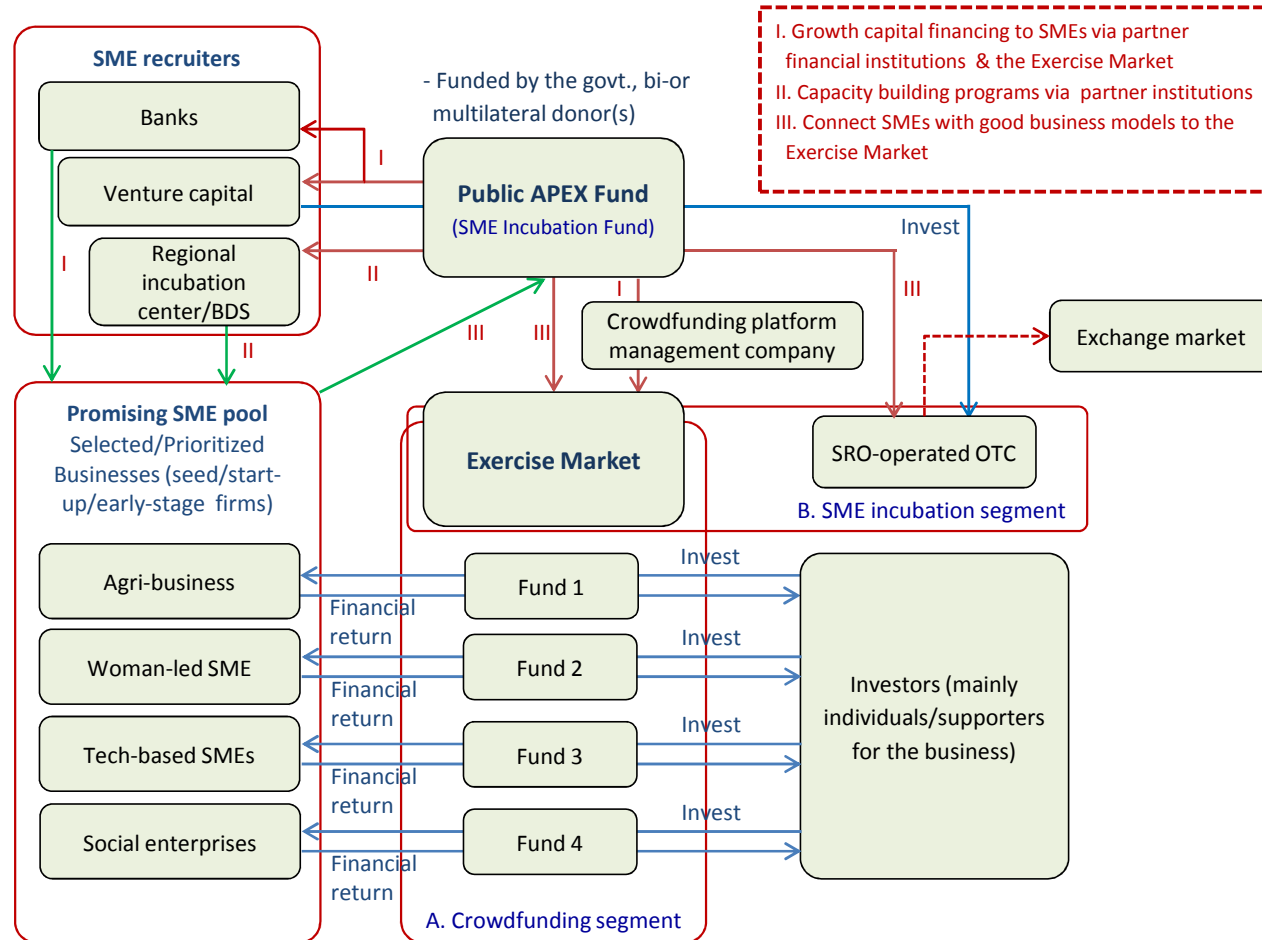
Approaches to reduce supply-demand gap in MSME finance



Alternative MSME Finance Models: Online Supply Chain Finance

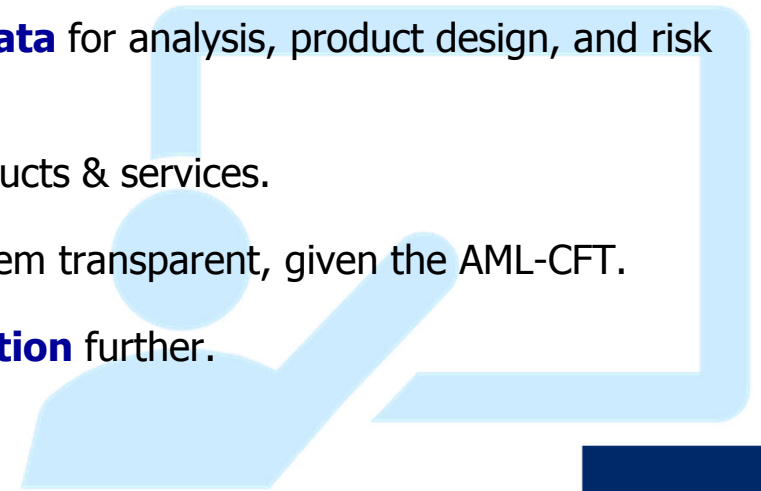


Alternative MSME Finance Models: Public-Private Sector Collaboration and Digital Solution



Policy Implications in Asia

- Policy actions are required to encourage the shift to digital in MSME finance.
 - ✓ Diverse **financing options** well fit to the demand on MSMEs, with use of digital technology.
 - ✓ Develop **infrastructure** for DFS: a national payment switch, digital identity, and open API.
 - ✓ Develop methodologies to secure **quality & reliable data** for analysis, product design, and risk management.
 - ✓ **Regulation as an enabler** for innovative finance products & services.
 - ✓ Strengthen **financial integrity** to keep a financial system transparent, given the AML-CFT.
 - ✓ Address **consumer protection** and facilitate **competition** further.
 - ✓ Enhance **digital finance literacy** among MSMEs.



Thank you for your attention.

For further questions:

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