



FINANCIAL INCLUSION OF SMES

A Point-of-View Paper from the AmCham Financial
Services Committee

BACKGROUND

Traditional lending models have long been a barrier to accessing finance for small and medium-sized enterprises (SMEs) in fast-growing economies. Even before the COVID-19 outbreak, less than 15% of SMEs had access to the credit they needed to grow; constraining economies and hampering job and wealth creation.¹ According to the International Finance Corporation, the unmet financing need of SMEs is estimated at US\$5.2 trillion globally.² The Asia Pacific (APAC) region still lags behind most other regions, accounting for more than half of this figure and a comparatively high percentage of firms in the region (about 32 percent) reporting access to credit as a major constraint (compared with the world average of 26 percent).³ This gap will likely widen significantly following a pandemic-induced economic downturn.

SMEs are the largest contributor to employment across all country income groups and account for nearly half the workforce in the average country. Closing the SME financial inclusion gap could, therefore, bring about significant gains in growth potential and economic growth. Beyond job creation, productivity and employment gains from increased access to financing are higher for SMEs (1.3 percentage points and 2.3 percentage points, respectively) than for large firms (0.8 percentage

points and 1.8 percentage points). Greater SME financial inclusion is also associated with more effective fiscal policy, including monetary policy transmission, tax collection and price stability.

Encouragingly, the swift evolution of fintech is opening up new hope for the sector by providing access to alternative funding solutions, as well as improving access to traditional lending models. By using advanced analytics platforms and digital delivery models to assess transactional and alternative data, SMEs can establish creditworthiness and enable fintech lenders to evaluate risk more easily.

The pandemic has brought a dramatic shift towards digital financial systems that can connect underserved populations, integrate markets for the growth of business, and build financial capabilities in SMEs. Given the expansive scope of fintech in APAC, particularly in response to COVID-19, partnerships that foster the exchange of data will be critical to the future of digital SME lending. In an industry long defined by tradition, competitors and regulators across the value chain have the opportunity and responsibility to collaborate in order to create new financing solutions that will close the SME credit gap.

RECOMMENDATION FOR SINGAPORE

Banks and traditional financial institutions should evaluate their value proposition and approach to supporting SMEs

The fintech community in Singapore has grown rapidly in the last five years, with a steady rise in fintech investments to fuel this growth.⁴ Even amidst the COVID-19 pandemic in 2020, the funding landscape in Singapore stood in contrast

to other markets in the region, with new entrants to the sector exploring white spaces in wealth management, capital markets, insurtech, regtech and data analytics.

¹How fintech can help SMEs recover from the impact of COVID-19. <https://www.weforum.org/agenda/2020/05/fintech-can-help-smes-recover-covid-19/>

²SME Finance. www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Financial+Institutions/Priorities/SME+Finance/

³A New Regime of SME Finance in Emerging Asia: <https://www.econstor.eu/bitstream/10419/109602/1/wp-104.pdf>

⁴Singapore Fintech Landscape 2020 and Beyond. <https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2020/dec/singapore-fintech-landscape-2020-and-beyond.pdf>

As SMEs in Singapore are encouraged by the government to digitalise and use technology to improve domestic and cross-border e-commerce opportunities, AmCham encourages banks and traditional financial institutions to evaluate their value proposition and approach to supporting SMEs that will need access to financial capital.

Beyond government co-funding, private and public partnerships must invest in tools to help drive this digital inclusion. Singapore's ecosystem is well set up for innovation. Singapore is recognized as a leader in Asia in terms of legal and regulatory

frameworks for fintech; since 2016, government agencies such as the Monetary Authority of Singapore have worked closely with financial institutions to launch regulatory and industry sandboxes to help market players collaborate and deploy new digital solutions. Given Singapore's strong regional position as a fintech hub, Singapore could focus future efforts on harmonizing standards across the Asia Pacific region, thereby allowing industry partners to develop and deploy regional strategies with greater ease.

RECOMMENDATION FOR ASIA PACIFIC

Strengthen and expand digital financial services

As the banking sector dominates the financial system in most Asian countries, how to enhance banks' lending efficiency to SMEs is a core issue in the context of financial inclusion. In a report on advancing digital inclusion, the World Bank reports that countries in ASEAN show different levels of progress in their digital financial services policy and regulations, often associated to their different levels of financial system development.⁵ Factors that have aided the development of digital financial services are the availability of frameworks for the provision of payments, widespread use of e-money and regulations allowing the use of agents by banks and non-bank entities.

To strengthen and expand digital financial services at the country and regional level, AmCham encourages APAC countries to target the following areas of focus:

- Better articulation of national strategies with the goal to increase financial inclusion and digitization of the economy;

- Stronger regulatory capacity to comprehend the evolution of financial services and handle the additional risks brought by innovations and new business models;
- Improvements in basic infrastructure, such as efficient and accessible retail payment systems, and in the digitization of large-volume recurrent payment streams;
- Progress in financial and technological literacy, which would enhance trust in digital financial solutions;
- The collection and use of reliable data on traditional and emerging financial technologies for policy-making purposes.

⁵Advancing Digital Financial Inclusion in ASEAN. <http://documents1.worldbank.org/curated/en/856241551375164922/pdf/134953-WorldBankASEANDigitalFinancialInclusioninASEANpublicationJan.pdf>

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