

Financing MSMEs: Structural Issues and Policy Implications in Asia

Workshop and Stakeholders Consultation on Enhancing MSMEs Financing in
Cambodia with Comparative Perspectives from Nepal and Republic of Korea
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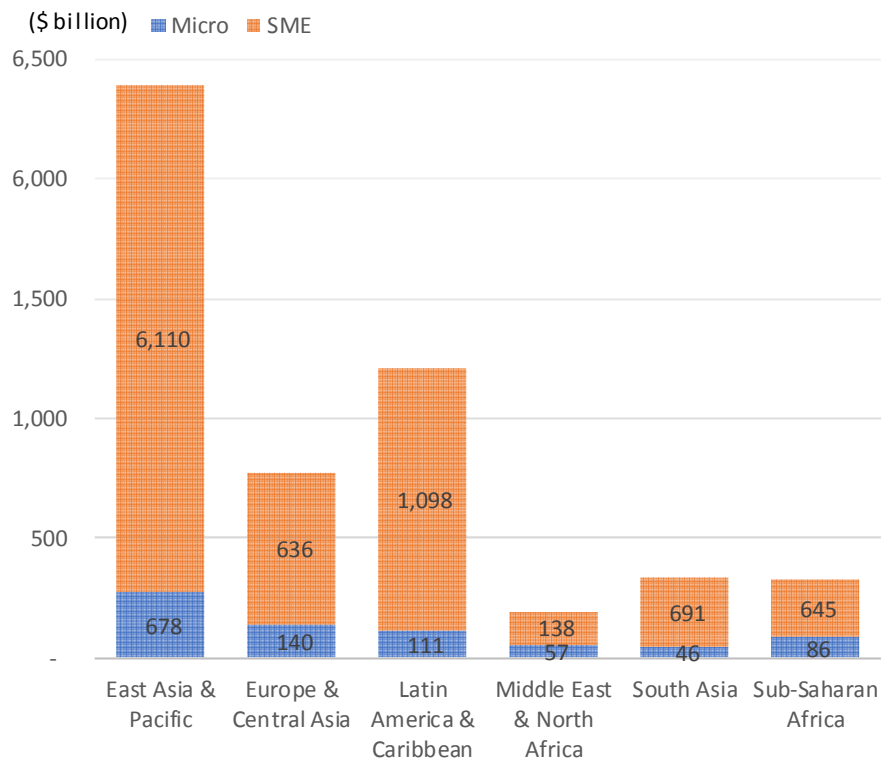
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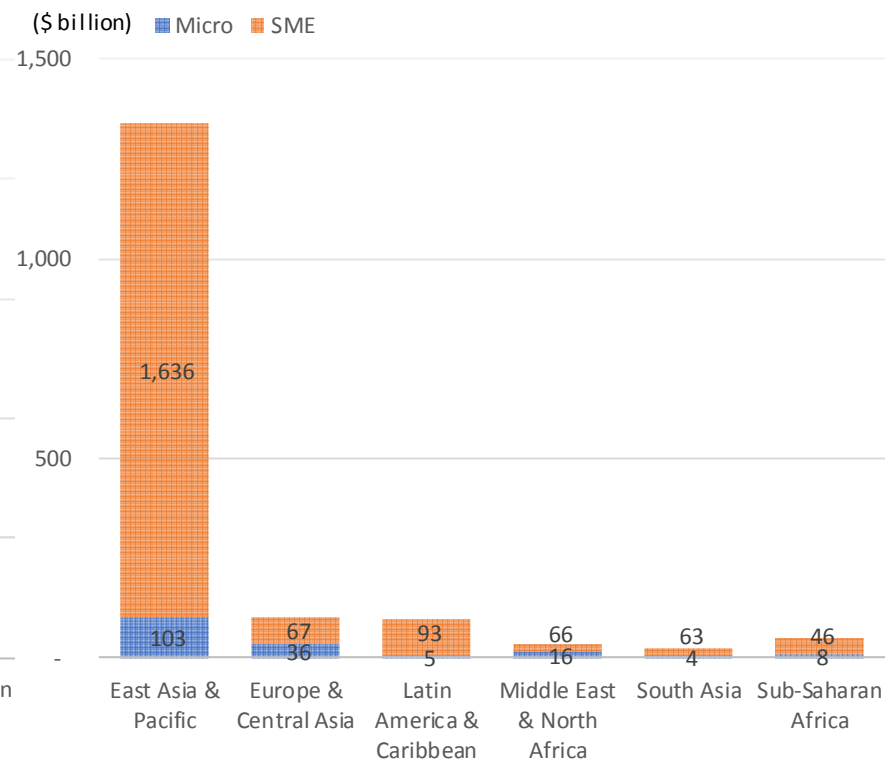


MSMEs in developing Asia, especially women-led MSMEs, have faced the highest financing gap in the world.

MSME Finance Gap in Developing Economies



Women-led MSME Finance Gap in Developing Economies

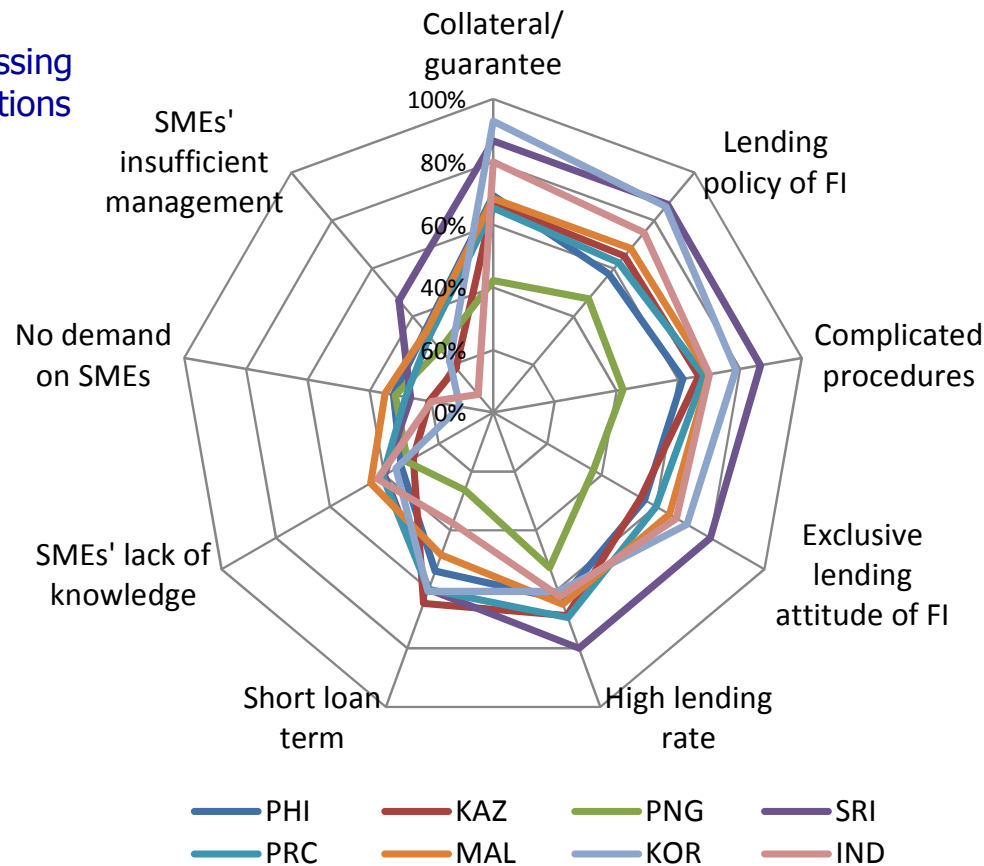


Source: Recomposed from IFC, 2017. MSME Finance Gap.



Common challenge: Collateral/guarantee requirements & high lending rates are top barriers for SME access to finance.

Barriers to Accessing Financial Institutions

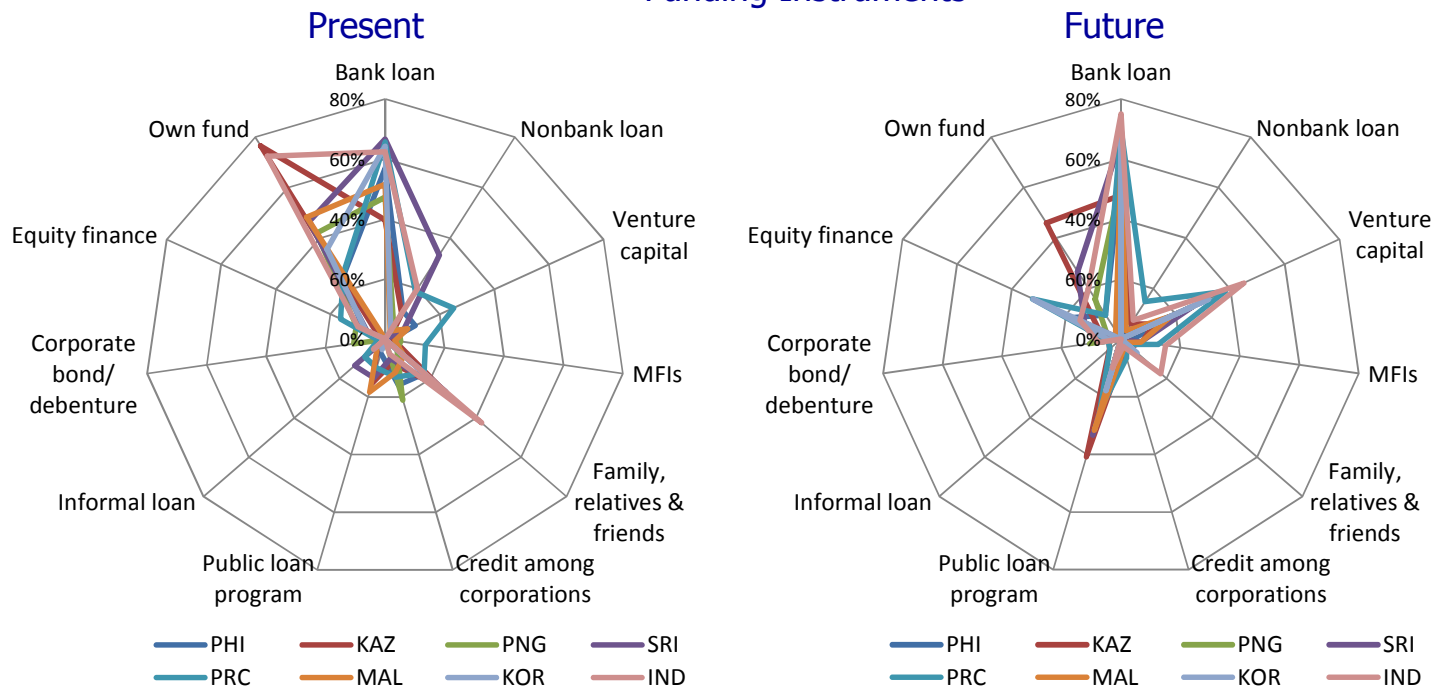


Notes: Percentage as the share of SMEs that answered yes plus somewhat yes from five scale scores (yes, somewhat yes, neutral, somewhat no, and no) about barriers to access finance. Valid samples: the Philippines (PHI): 63; Kazakhstan (KAZ): 98; Papua New Guinea (PNG): 19; Sri Lanka (SRI): 15; People's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



SMEs seek to access formal finance & diversified long-term funding instruments for stable growth of business, diminishing informal finance dependency.

Funding Instruments

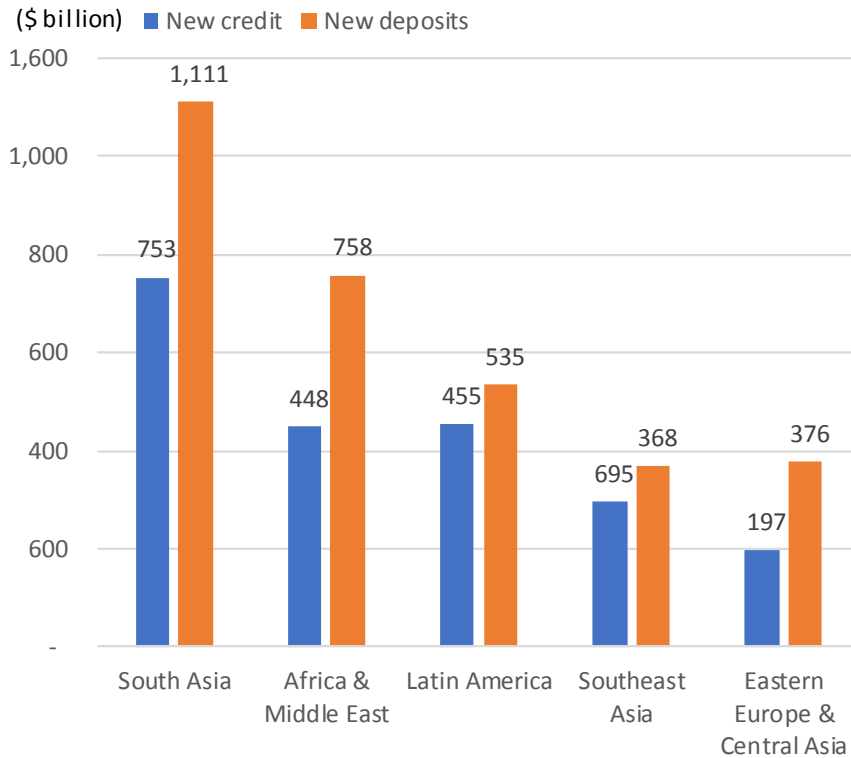


Notes: "Present" refers to funding instruments accessed while "Future" refers to funding instruments desired in the future. Percentage as the share of funding instruments utilized and desired by SMEs to total number of surveyed SMEs by country. Valid samples: the Philippines (PHI): 63; Kazakhstan (KAZ): 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.



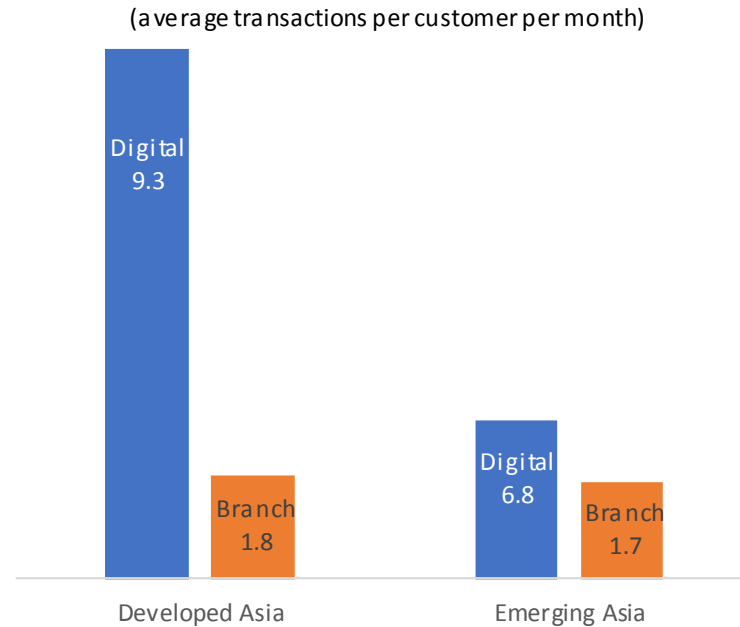
Fintech brings more opportunities for MSMEs to access low-cost financing.

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.

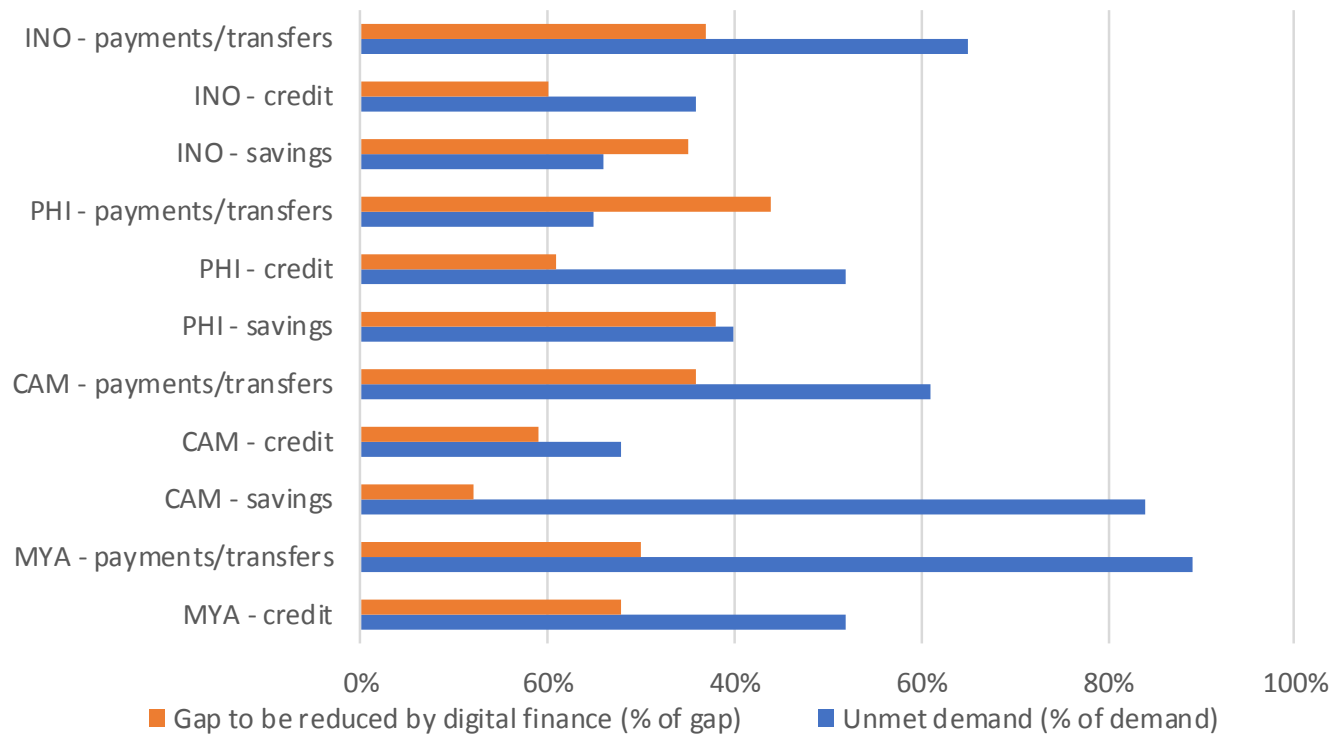


Source: Recomposed from Mckinsey&Co., 2018. Asia's digital banking race: Giving customers what they want.



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

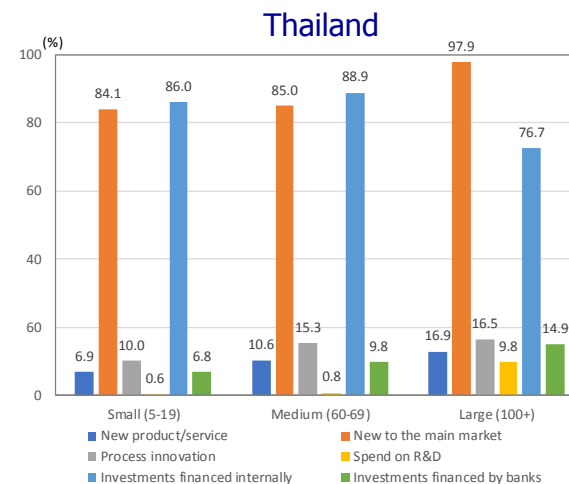
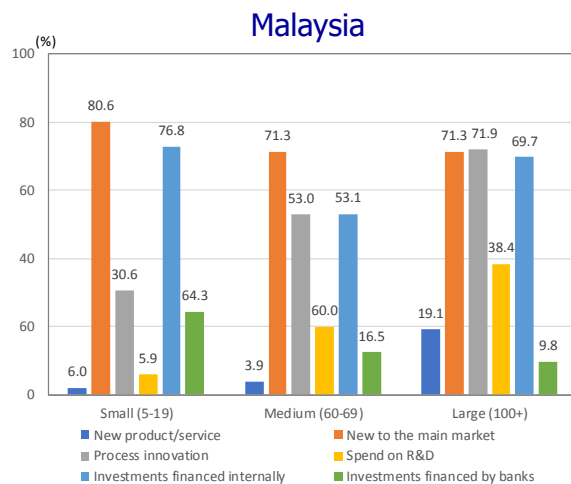
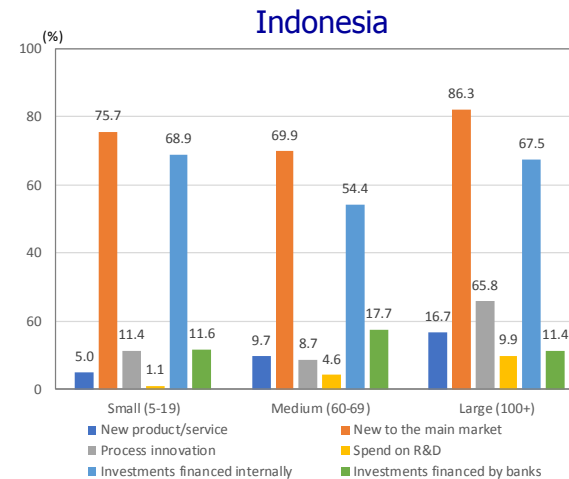
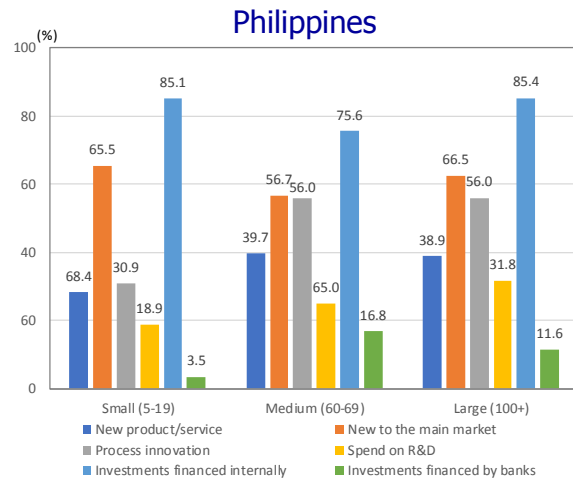
Potential Impact of Digital Finance on Access to Finance in Asia



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



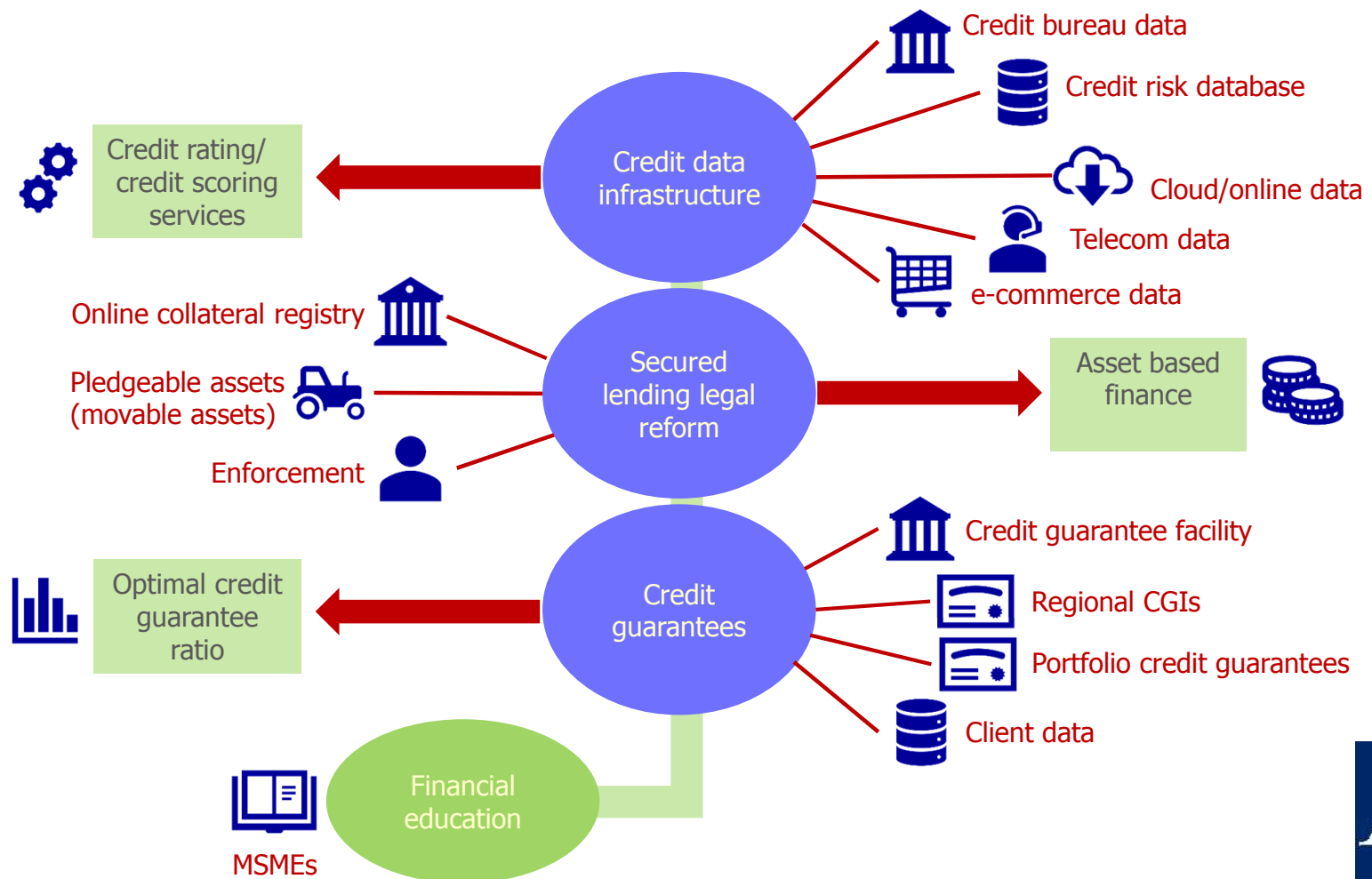
Tech-based MSMEs: Low investment in R&D makes MSMEs' innovation capability remain weak.



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 (%).

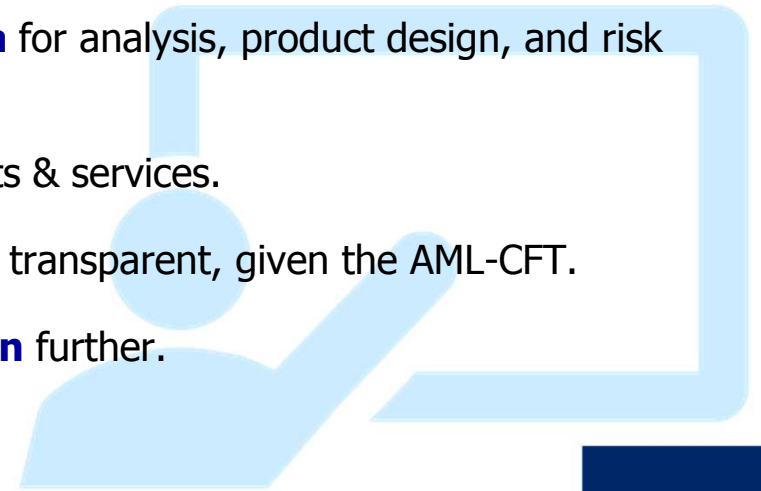


Approaches to reduce supply-demand gap in MSME finance



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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