



**International
Finance Corporation**
World Bank Group

Regulatory Challenges and Possible Recommendations to Support MSME Access to Finance

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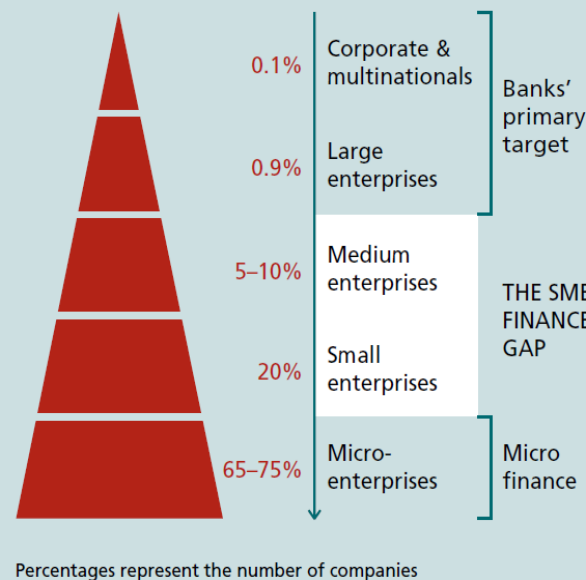
**Manila, Philippines
28 June 2011**

MSMEs and Link to Poverty Reduction in Emerging Countries

- Job creation/ Livelihood:
 - ✓ They tend to employ poor and low income workers
 - ✓ Sometimes SMEs are the only source of employment and income in rural areas
 - ✓ Self employment is often the only source of income for many in the Pacific Region particularly PNG
 - ✓ Women often turn to owning an SME to provide a source of income, flexible enough to enable them to continue child raising duties
- Economic diversification
- Enables broad-basing benefits of large scale resource projects (mining/agri/tourism linkages)
- MSMEs are considered an important seed bed for innovation
- Initial grounding for entrepreneurship/business incubation and skills development

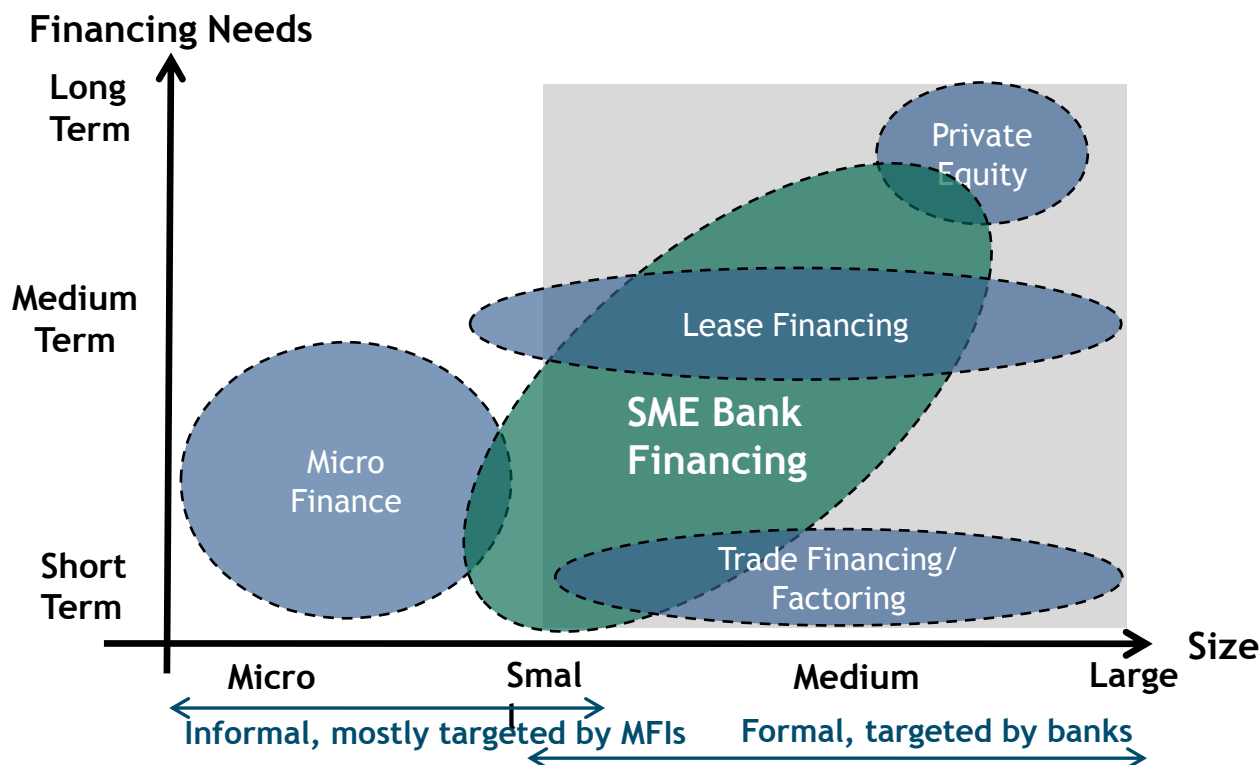
- As of March 31, 2011 IFC had 59 of SME Banking Advisory projects totaling over \$41.5 million
- As of June 2010, IFC committed portfolio in Financial Institutions (FI) that primarily target SMEs was about \$7.4 billion in 209 FIs in developing countries

Figure 2: Typical business landscape in emerging economies



The MSME Finance Gap

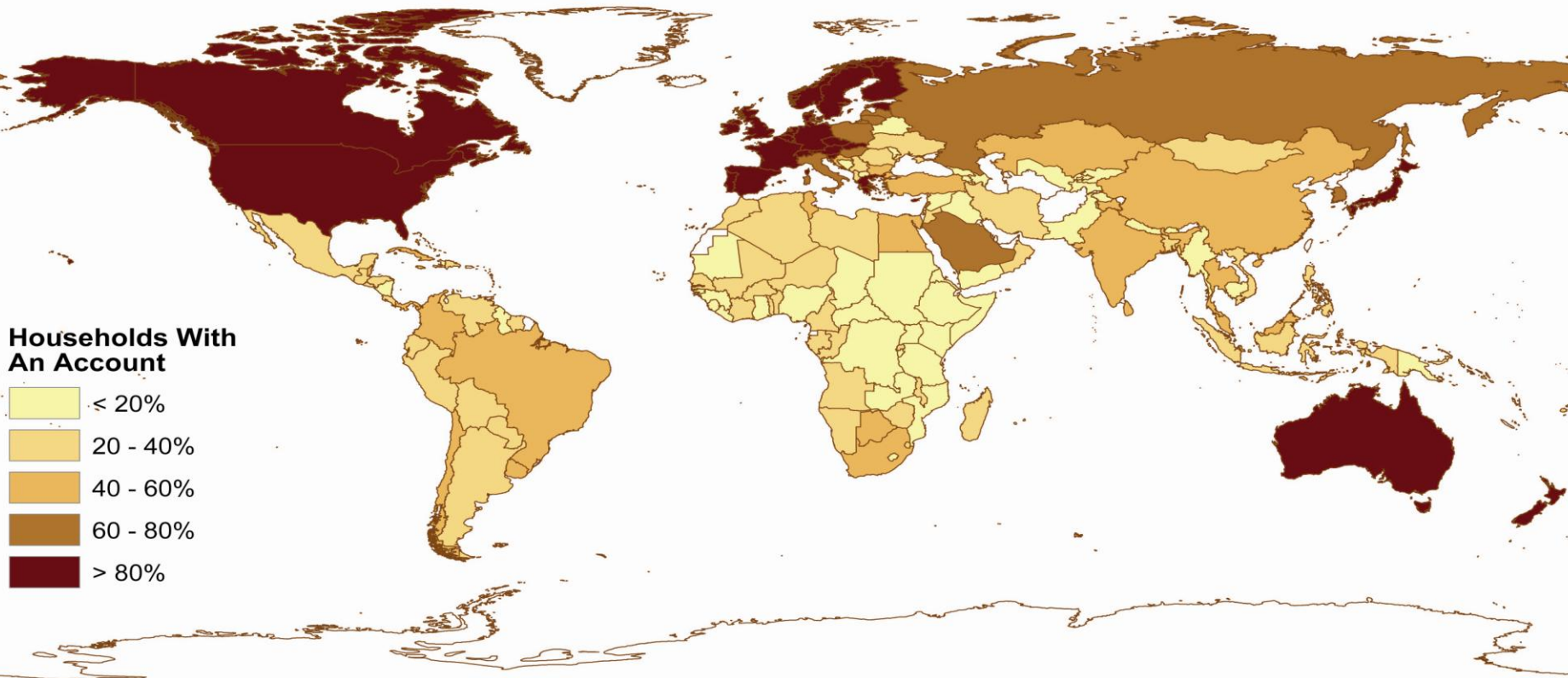
- **Commercial banks** are the largest providers of financing to SMEs
- SME finance gap is still wide: **large firms are 150%** more likely to use bank financing for a new investment
- MFIs' limited capabilities to upscale
- SMEs and the global financial crisis: while there were adverse effects of the financial crisis - trend in the SME segment is toward **continued growth and value**





In Emerging Markets, Roughly
Two-Thirds of the Population Remain
Unbanked and Underserved

Access to Finance

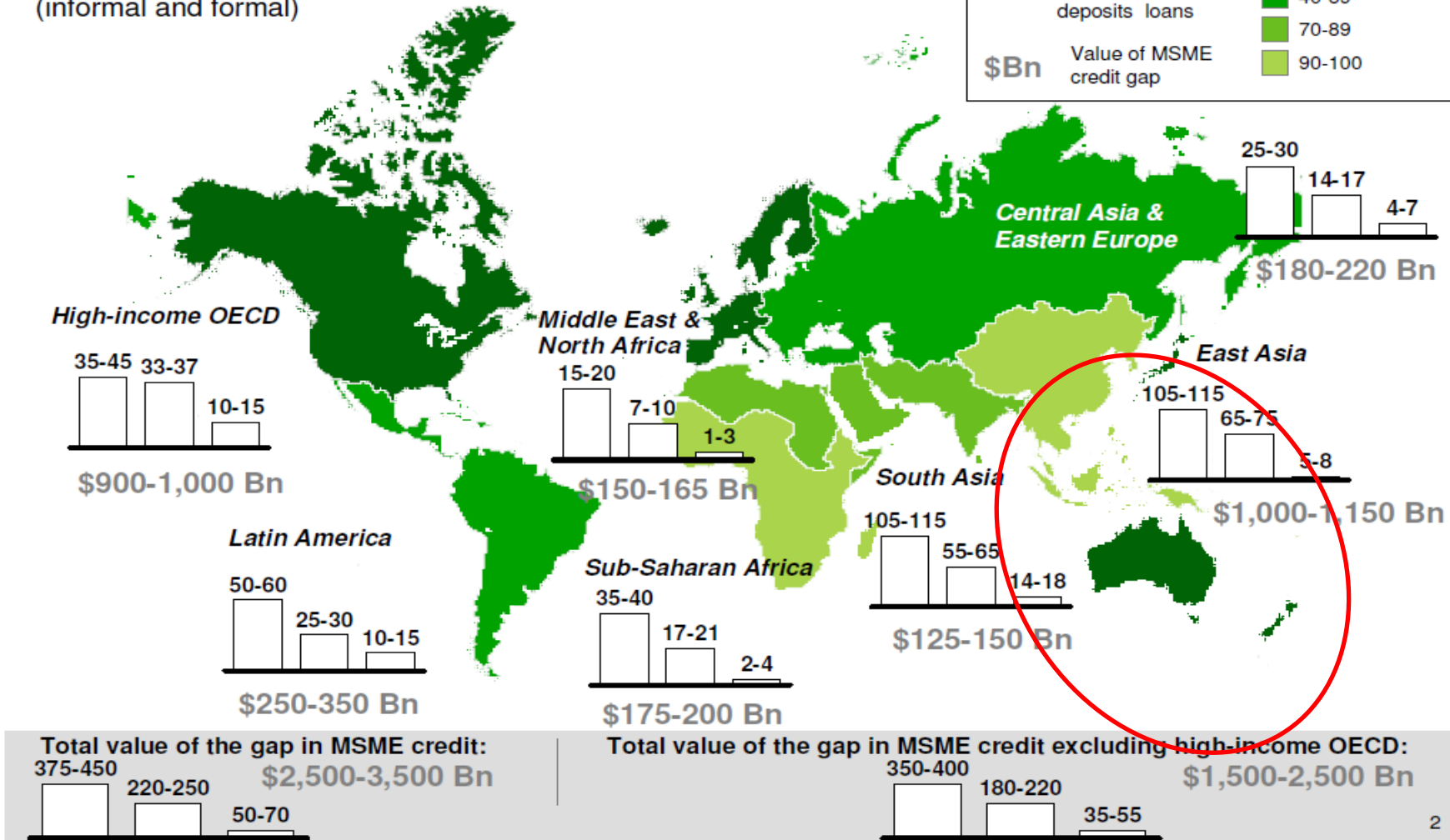
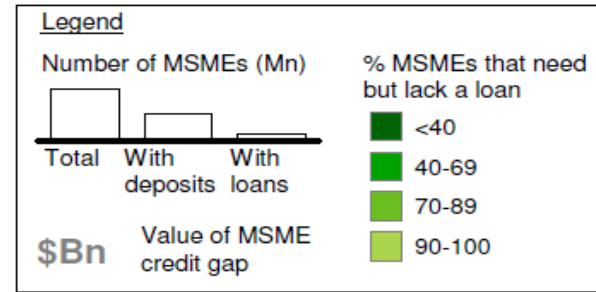


Note: Map shows percent of households with a deposit or loan account in an institution (banks, savings banks, microfinance institutions).
Where available, the data come from household surveys, otherwise, they are predicted values from a regression using aggregate deposit figures.

Source: Demircuc-Kunt, Beck and Honohan, 2007, *Policy Research Report on Access to Finance*, World Bank.

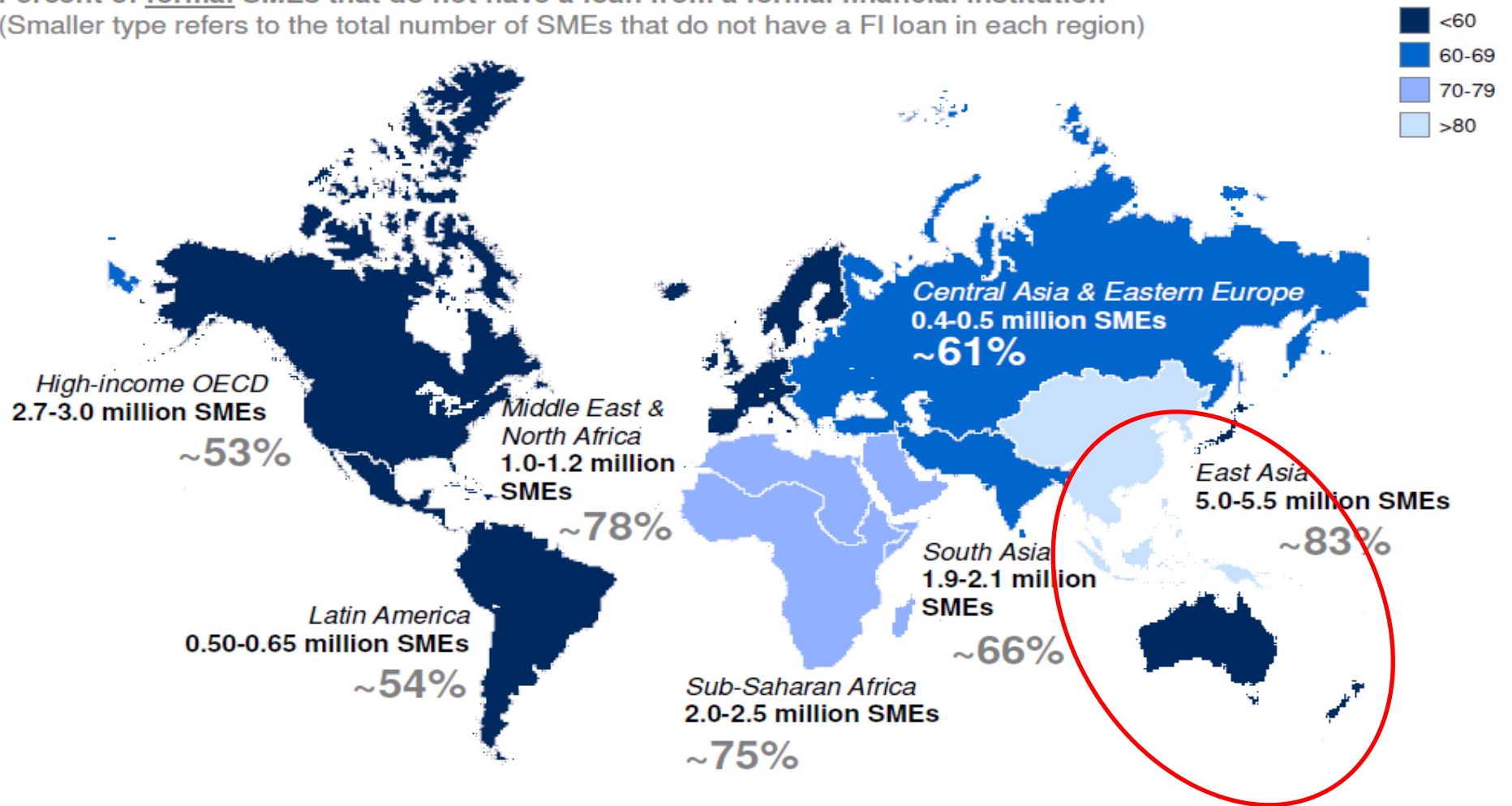
Overview of MSMEs' access to finance by region

Bar graphs refer to million of MSMEs in the region (informal and formal)



More than 70% of formal SMEs lack access to financial institutions loans

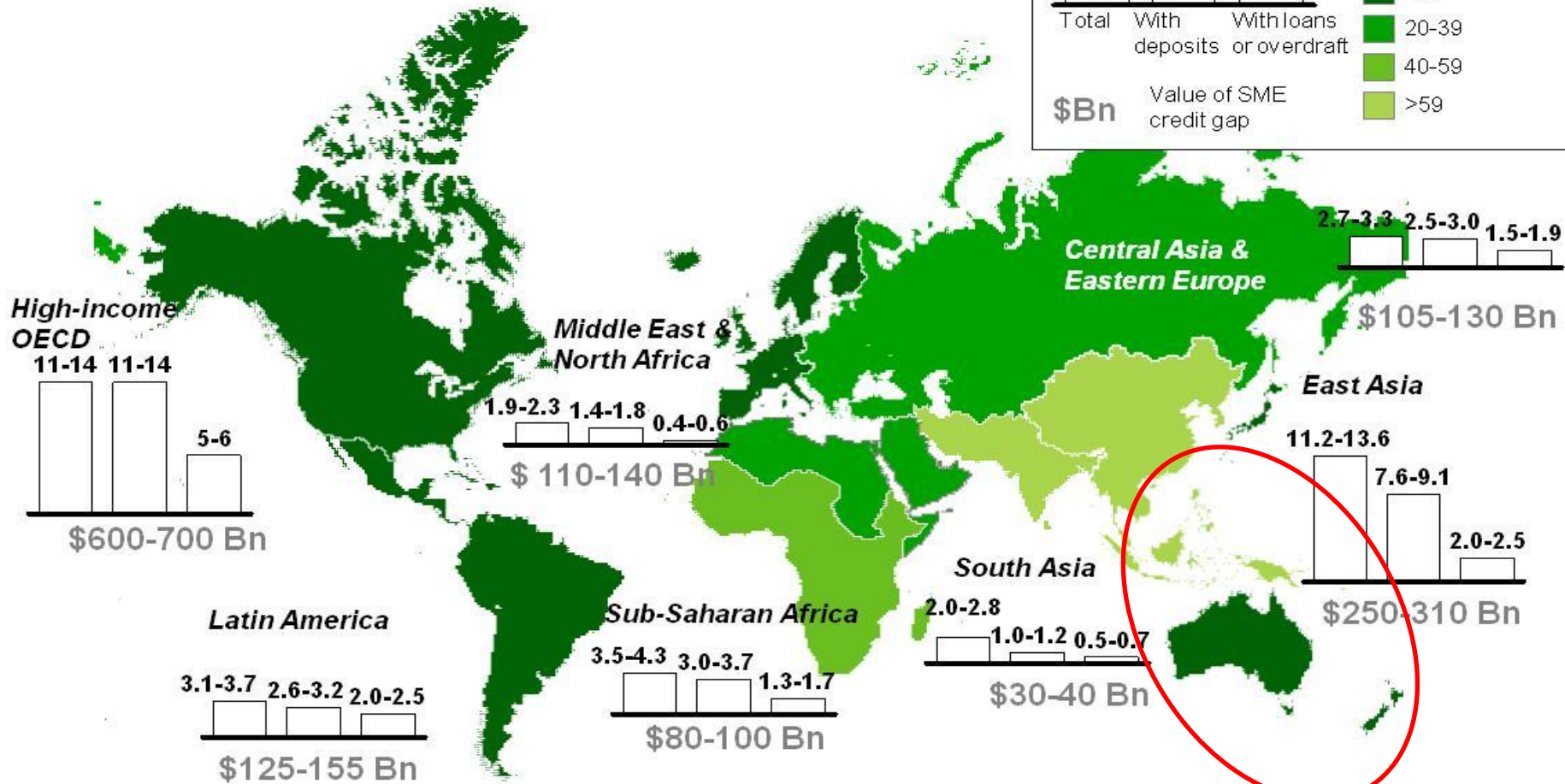
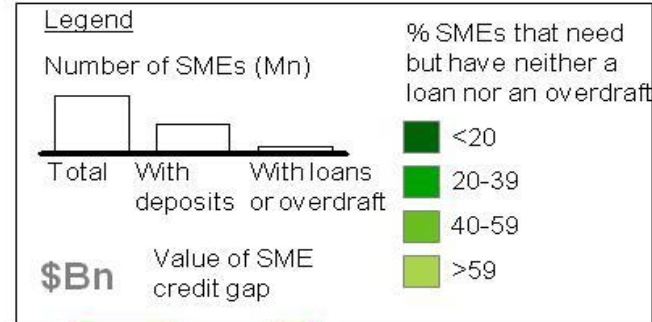
Percent of formal SMEs that do not have a loan from a formal financial institution
 (Smaller type refers to the total number of SMEs that do not have a FI loan in each region)



Total # of SMEs: 13-16m 67-71% Total # of SMEs excluding high-income OECD: 10-13m 73-77%

Overview of formal SMEs' access to finance by region

Bar graphs refer to million of formal SMEs in the region (i.e., typically 5 employees and above)



Actions and Policy Recommendations

- **Developing country specific diagnostics and strategies:** determine SME finance gap and SME finance architecture (financial infrastructure, laws and regulations, policy interventions) - support from IFIs to national governments
- **Develop supportive legal and regulatory framework:** leasing/factoring, healthy and competitive financial sector regulations, enforcement of contracts/collateral
- **Improving the financial infrastructure:** credit bureaus/registries, SME rating agencies, collateral registries (movable and immovable), capital markets
- **Effective government support mechanisms** (avoid market distortions): credit guarantee schemes, risk share facilities, concessionary lines of credit

Actions and Policy Recommendations (Contd.)

- Build consistent and reliable data sources on SME finance:
 - efforts to standardize SME definitions
 - survey SMEs to identify and quantify un-served and under-served SME segments
 - Automated business registries, credit bureau data
- Building capacity of financial institutions:
 - Broadening product range
 - Distribution channels
 - Internal process and systems improvements - MIS, credit scoring tools, strategy, access to market segmentation information, staff training
- Capacity building of SMEs: technical and business development services, access to markets (trade shows, exhibitions), SME associations, chambers of commerce

Recommendations to G20 Leaders to scale up SME A2F

- Establish a **supportive enabling environment** for SME A2F:
 - Country specific diagnostics and strategies
 - Supportive legal and regulatory framework
 - Strengthening financial information infrastructure
 - Building reliable data sources
 - Building capacity of financial institutions
- Establish a **Global SME Finance Forum for knowledge sharing**
- Collaborative effort by bilateral and multi lateral DFIs for **technical assistance for capacity building**
- Efforts to gather better **SME finance data** in a coordinated fashion across countries