2020 Global SME Finance Forum

Call for Insights E-publication

CROWDSOURCING THE FUTURE OF SME FINANCING
Acknowledgements

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IFC supports some 800 financial institutions world-wide. Improving SMEs’ access to finance is one of IFC’s core priorities in this work. COVID-19 has disproportionately exacerbated the financing gap for SMEs, which poses severe risks for emerging economies, as they generate between 70 and 95 percent of new employment opportunities. IFC has ramped up our support to the global financial sector during this period to help mitigate the effects of this crisis.

We have been amazed by the resilience and adaptability of our financial institution clients, and of their clients, the small businesses and microenterprises they serve. Financial institutions have been playing a critical role in channeling support to businesses and individuals in most challenging markets. As is often the case, crises can come with silver linings in unleashing creativity and innovation. The SME Finance Forum, managed by IFC, decided in this challenging time to launch a call to all SME practitioners around the world to share their knowledge and creative thinking about the future of SME finance. We are pleased to see the breadth and depth of the response to this call coming from engaged professionals of all segments: entrepreneurs, bankers, government officials, senior executives and tech innovators. These visions provide us with a forward-looking perspective on SME financing as a real engine for growth. I would like to personally thank all contributors for sharing their visions and their wisdom of how the financial sector, over the next decade, will unlock opportunities to close the gaps in access to finance for SMEs.

Paulo de Bolle
Senior Director
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It's been a well reported phenomenon, most recently popularized in James Surowiecki's (2004) The Wisdom of Crowds, that aggregating information from groups can result in better decisions than almost any individual could have made – why, for example, the average of guesses of how many beans are in a jar usually is far closer to the real number than any single guess, and the average does even better, the larger the crowd doing the guessing.

But not all crowds are wise. Surowiecki points to five critical elements in a wise crowd: diversity of opinion, independence, decentralization, trust and aggregation. When the SME Finance Forum set out to learn about SME Finance – Outlook 2030 from our large global community of members, partners and followers, we hoped we would attract a wise crowd. We were not disappointed. We received entries from banks, FinTechs, development banks, consultancies, research institutions, ministries, central banks, and more. Essays came in from 26 countries, representing six of the world’s seven continents (still waiting for Antarctica to get involved in the work of the SME Finance Forum!). We had 43 male authors, but only 16 female authors, so there may be some gender bias in the visions – but not one that emerged obviously in our reading. Our authors worked independently of each other, and they trusted the care of their visions with us. So far, four of the five critical elements pretty well covered!

This introduction is our attempt to provide the last element, to aggregate what we have in this group response, to give some shape to the marvelous collection of essays we’ve been gifted. I hope we can do justice to some central themes emerging from the marvelous short essays we’ve received - but we encourage one and all to read through all of them, to gain even more from this assembly of prediction.

Many of the essays touch on institutional changes – new collaborations, partnerships, between different types of companies (financial institution/ fintech, tech/fintech, bank/tech, government/bank, government/tech, etc). Several jettison the two-sided concept of partnership to speak about how platforms or ecosystems will develop to coordinate multiple institutions to offer more, more quickly, and more responsibly to SMEs.

Product changes, in many dimensions, dominate several of the future visions. More personalized products, more diversified, and pushed instead of pulled. Many of the products will be custom tailored to the enterprise segment – products for plumbers, for example. These products arrive effortlessly based on data access the entrepreneur has shared earlier – as opposed to requiring applications, document submission, and knowledge on the entrepreneur’s part that a new offering should be sought. Many of these scenarios include going beyond straight working capital loans to other lending and even equity products. Several believe that small savings will increasingly be channeled into “crowded” small investments, democratizing capital markets. There is hope that greener financing will be scalable for smaller firms, and that other areas of impact financing, too, will be viable when doled out in smaller quantities to smaller scale enterprises.

As we have noted for a few years now in the SME Finance Forum, the future of SME finance involves financiers going beyond finance to help the SMEs do better business. Several of our seers describe widely scaled support for market access and for building management skills. Cloud accounting, digital supplier and customer management (ERP), and more becomes available even for the smallest firms.
With this broadening of services, finance itself becomes invisible, embedded in other business support, there when needed, integrated into the day to day of doing business. AI not only helps advise when and what type of finance might be timely, it also provides sales, marketing, treasury management, and other guidance heretofore only available through expensive, highly trained humans in larger companies.

There are some areas where the visions diverge. Some feel that market dominance will become more concentrated in big banks and big tech companies moving into banking. Others see a more decentralized future, where platforms enable smaller, more nimble players to fill various market niches. Some see banks becoming more specialized, others see them widening their scope through partnerships. Supply chains get more centralized in some scenarios, more decentralized in others - this may reflect how COVID is shaking our thinking about trade and globalization.

Several authors chose to focus on a particular country, providing a more focused perspective on the future. We’ve tried to group the visions by these common themes, but it is rare to find one that doesn’t overlap many areas. So read these pieces in order - or feel free to jump around… experiment! Innovate! That’s what this exercise has been all about. Hopefully at the end you, too, will be thinking ahead, and perhaps even making plans to make some or many aspects of these visions come to fruition.

Matthew Gamser
CEO
SME Finance Forum
BEYOND FINANCE
“Banking is just bits and bytes”
A visionary bank CEO, John Reed (ex-CEO of Citibank) had articulated the future of financial services and today, we unreservedly credit him with what only he dared to say 30 years ago. Financial services, as we see today, is going through a paradigm shift with digitalization, technological innovation and data governing the rules of competition. By 2030, the market will primarily be governed by digital natives (and not digital migrants); natives who are always virtually connected, who need innovation, who don’t have any brand loyalty and who rate convenience above all. To meet the changing customer behavior of Generation Z as we call it, traditional financial practices would continue to re-invent themselves and deliver contactless, paperless and fully automated solutions. Focusing specifically on SME Finance, it would be imperative to have a harmonious co-existence of fintech firms, banking institutions and most importantly, pureplay tech companies. It is certain that tech companies (Google, Amazon, Microsoft etc.) will push beyond their existing boundaries and act as catalysts (and not threats) for quick and easy SME finance. They will gain a major market share while also bringing state of the art technologies (video KYC, open APIs, Open credit enabled networks, big data, account aggregators, Robotic process automation etc. to name a few) and democratizing credit across all regions, customer segments and industries.

Additionally, an easy traversable path to go digital with minimum costs, technology shifts and disruptions would be laid for traditional financial organizations with the acceptance and usage of cloud services for data storage, digital ecosystems and digital platforms (SaaS). The global digital lending platform market size was valued at USD 3.5 billion in 2018 and is anticipated to exhibit a CAGR of 20.7% from 2019 to 2026.

New business models and partnerships would flourish for the mutual co-existence of all – this is what happened with FinTechs in the current decade; the traditional banks ignored them the first time; were threatened by them in the second look and finally embraced them with partnerships and co-lending models. For instance, Google has already forayed into digital lending space by partnering with fintech firm, Zestmoney. Based on the Economic Times Report, Google Pay already leads in terms of aggregate transaction values (7350 USD’ Mio with 40% market share) for digital payments in India.

The global digital payments market is expected to grow from $3,885.6 billion in 2019 to about $5,439.8 billion in 2020. The market is expected to stabilize and reach $8,059.3 billion at a CAGR of 20% through 2023.

The epitome of the digital financial universe would undoubtedly be governed by artificial intelligence and machine learning algorithms for all stages of digital processes. The last two decades have already seen the extensive application of data science and predictive analytics in credit decisioning, cross sell and upsell, fraud detection, recovery and collections etc. The futuristic SME Finance would avail unaltering benefits of the advanced AI techniques for location and customer clusters’ identification, TAT reduction, WEB searches, peer to peer lending, blockchain enabled supply chain solutions, crypto currency platforms, voice/image recognition and implementation of alternate sources of data as such. Data science practices and technology would completely transform operational as well as customer facing processes leading to process optimization and automations, enhanced user experience and finally, survival of the fittest. The regulators will have to play a pivotal and unparalleled role in this evolutionary model; not only would they be actively framing policies for cyber security and consumer protection but would also be receptive to new guidelines, business models, consolidations and agile approaches in an ideal scenario. The regulatory frameworks would play a key role in addressing the potential threats of analytics and AI on the banking industry and humanity.

The question now is that how do we quickly adapt and accept new technological and data driven solutions to minimize the SME finance gap and enable individuals, enterprises, communities and economies to grow and thrive.

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Small and Medium Enterprises (SMEs) are lifelines of most economies; yet are largely underserved and see financing as the biggest impediment to growth. To make things worse, this decade started with an unprecedented humanitarian crisis (Covid-19) and SMEs no longer are just an underserved segment; they also are one of the most severely impacted segments. However, there is a silver lining in all of this that will lead to a radical transformation in the way SMEs are served. The following are ten trends that will likely underpin the transformation of SMEs firstly into a ‘Digitally Enterprising Community’ and subsequently from being ‘Underserved’ to being served in a ‘Contextual and Personalized’ way.

1. SMEs are becoming ‘Digitally Smarter and Empowered’ and Lenders will welcome it: SMEs will no longer remain a colloquial community confined to traditional ways of doing business. They are rapidly digitizing given their customer’s require them to sell digitally and accept payments digitally; their suppliers require them to procure digitally; their law makers require them to file all their statutory filings digitally (e.g. GST in India); and their own requirement for cloud based solutions such as payroll, accounting, invoicing to run their business from home. For lenders, this resolves the perennial challenge to serve SMEs based on meaningful and reliable information. Lenders will be able access data digitally and economically such as obtaining last 36 months of SMEs sales data digitally from Tax Authorities and instantly corroborating with other data sources like digital payments, bank statements, digital sales, etc.

2. Before alternate data, lenders will focus on digital data available in each stage of the working capital cycle: New forms of data digitally available at each stage of the working capital cycle can help predict cash flows. For example, for purchase of raw materials, granular purchase data is digitally available including number of distinct suppliers, returns, payment methods, frequency, inventory, logistics, etc. Also, there is value in 2nd order alternate data that’s available alongside, to underwrite or corroborate facts. For example, when SMEs pay tax digitally, data on the timeliness of tax payments, records of late payment, disputes, refunds; will all be meaningful information.

3. Develop an understanding of the SME data using machine learning first, AI will know when to kick in: SME data can be messy with lots of noise; and here machine learning will play a key role initially to improve its accuracy and enable analytical model building. Robust credit models will follow, based on empirical data and AI will enable continuous improvement.

4. Personalize the lending journey and credit assessment model for various SME Personas: Today Lenders typically use very standard customer journeys and credit models to assess SMEs with a very thin layer of differentiation. There will be a proliferation of customer journeys and credit models, almost a vertical salami slicing segmented on data availability and the platform(s) that the SMEs are part of.

5. From ‘Relationship based Lending’ to ‘Build Relationship after Lending’ With the Customer Due Diligence requirements for lending and deposit having diverged significantly; lenders to deliver a true digital experience, will start with a monoline lending relationship akin to Credit Cards. A good lending experience will eventually open the door for more products.

6. Instead of starting with the ‘Business’; Lenders will start with the ‘Platform Ecosystem’ that the Business is part of: More and more goods and services are being exchanged on platforms and new platforms emerge every day, connecting buyers and sellers for every conceivable product or service. Lenders will partner with these platforms to reach SMEs, access their data and dip into the payment flows for repayments. Banks will also value the powerful data that’s available within its own ecosystem such as internal payments and remittances from corporate clients to their suppliers and distributors who are often SMEs, merchant’s data on credit card spends, etc.
7. Lenders will first help SMEs transform their business models and then embed financial services contextually: Emergence of highly digitized ‘SME Focused’ lenders who will create a digital ecosystem of partners to first help SMEs digitize their business models and then integrate their financial services in a contextual way. For example, First provide Supply Chain solutions (digitizing product catalogs, order management, inventory management, etc.) for brands or distributors and then embed inventory financing to help the cash flow management of participating SME Retailers.

8. It will be entirely possible to lend to SMEs without cutting a single tree: SMEs have a thin file on a Credit Bureau but when it comes to their loan application, it’s never thin and runs into 100s of pages. Technologies like Optical Character Recognition (OCR) and Application programming Interface (APIs) along with the prevalence of Open Banking along with Digital Signatures will make paperless lending entirely possible.

9. SME Financing and Sustainable Financing – From two unrelated Problems to close cousins helping each other: While all the above will significantly enhance SMEs access to financing; with the focus on global warming, Investor’s demand for green assets will surge significantly. With the push from Policy Makers; Lenders to SMEs will create or repackage green financing solutions that will be traded or securitized to Investors to meet the demand for such assets. It will also be a catalyst driving higher risk appetite towards SME segment.

10. And Banks alone won’t solve all the SME Financing challenges: Traditional Banks will play a role in solving the SME Finance challenge by operating in a non-traditional way. However alternate means of financing will play a more important role which will include new players offering traditional financing products and also new forms of financing available to SMEs through crown funding, angel investment, private equity, etc. Eventually, SMEs will be the ‘winners’, brace for greater support on financing and get the due attention that they have long deserved.

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Satyam Agrawal is the President ASEAN & Global Head of Financial Services at GlobalLinker. GlobalLinker is an AI powered platform ‘Building a Global Community of Digitized SMEs’ with a growing community of over 300,000 SMEs from over 150 countries. Satyam’s role at GlobalLinker is to partner with leading Banks and Corporations to transform the way SMEs are served. He is also responsible for enabling financial services to be offered to SMEs on the Platform in a contextual and personalized way. In his prior role as Managing Director and Head of Retail Business Banking for Asia Pacific at HSBC, Satyam was responsible for delivering the growth ambitions of HSBC in this segment. Satyam set up four new markets including China, India, Malaysia and Indonesia hiring over 400 people. Satyam delivered key digital proposition including Digital Lending, Partnership with a leading E-Commerce Platform and the ‘Fusion’ Brand which won HSBC the EuroMoney award for the Best SME bank for 2019. Prior to HSBC, Satyam was the Global Head of Products for Retail Assets and Business Banking at Standard Chartered Bank overseeing 20 Countries.
Over the past few years, economic uncertainty has caused high-street lenders to retrench from the market. According to research by UK Finance, small business loans from big banks are on the decline. Figures from the Bank of England’s October 2019 Credit Conditions Survey showed a -13.5 percent drop among banks that expect to increase lending over the next three-months, the lowest level since 2009. The current state of SME lending is very segmented. For loans of £500k or less, there are businesses like Funding Circle, Kabbage or Iwoca that offer various debt financing options like small general-purpose loans and asset finance. Alternatively, there are new banks like Starling and Tide that are trying to solve lending for retail businesses with their offerings. For larger loans of £45m or more, the big banks are capable of putting enough manpower and resources behind credit underwriting, as the returns are far greater and more substantial.

This often puts a massive strain on banks providing loans of £500k to £25m to this Missing Middle – growth businesses that tend to have the most impact on economies and communities, but this multi-trillion-dollar global market has been in banking’s blind spot. This segment of the market has primarily been pushed aside because the data has traditionally been unconventional or previously unavailable – large in part to the manual, time intensive labor and expensive nature of extrapolating and analyzing such data.

For example, veganism has only recently come into the mainstream, meaning that there is insufficient data on the industry, and profitability and growth potential are hard to predict. This causes a number of challenges for banks trying to scope out the risks and opportunities in this emerging trend, which could ultimately hinder the number of loans distributed to new and exciting scale-ups.

In the next decade, we’re likely to see a fundamental shift in the way FinTechs and high-street lenders interact. Gone will be the days that big banks and FinTechs will compete to lend to the multi-trillion Missing Middle. Instead we’ll start to witness a symbiotic relationship form between the two. As witnessed from HM Treasury and Rishi Sunak’s 2020 Budget, there are a number of measures – Coronavirus loan schemes of up to £5m to support small and medium-sized businesses with working capital and £330bn of guaranteed loans (equivalent to 15% of the UK’s GDP) to support businesses that need access to cash can get it on attractive terms – being taken to ensure lending to SMEs continues to progress for the years to come.

By 2030, we’ll see traditional banks utilising cutting-edge technology created by FinTechs. At OakNorth, we’re betting our business on targeting banking’s blind spot and believe there’s an opportunity to solve SME lending across the world and tackle the Missing Middle segment – looking broadly there aren’t any other FinTechs out there that are aiming to solve this exact problem. By licensing out OakNorth, next-generation artificial intelligence software business we’re able to provide banks with the insight and foresight needed to give borrowers a customized loan that fits their specific needs. The Software also utilises unconventional or previously unavailable data to provide lenders with 360° monitoring capabilities. Through machine learning the Software is able to collect and digest millions of data sets on SMEs across a variety of sectors and markets. This data can then be used by lenders to make more informed and precise credit decisions through detailed line item underwriting. With the assistance of credit science, a combination of credit analysis and data science, our machine learning algorithms are constantly self-improving and adapting to provide Debt Finance people with enriched underwriting and Monitoring teams with a 360° view of their borrowers, so they are able to see areas of potential concern and take action early. After demonstrating the Software’s proven workable, quickly adoptable and profitable results with OakNorth Bank, we’ve seen massive appetite and are currently licensing it to 17 global banks. Using OakNorth Bank as a use case, we can see a positive and substantial multiplier effect happening to the small and medium-sized businesses we’ve aided over the past few years. By licensing out the Software, global banks will be able to replicate the success OakNorth Bank has achieved in the UK and multiply this multiplier effect.

The Missing Middle is really the driver and backbone of the economy. By supporting the growth of this segment, we’re not only boosting local businesses, but also facilitating the evolution of local economies and in turn strengthening employment and
GDP. In our mind this is exactly the right thing to do from so many perspectives. We alone cannot solve SME lending, but by working together and partnering with global institutions we could make major improvements.

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Sean is Chief Information Officer at OakNorth. Prior to joining OakNorth, Sean was one of the first commercial engineers at Palantir Technologies in Europe where he led trader oversight partnerships with large financial institutions, particularly Credit Suisse, which led to being co-head of the JV called Signac. Before Palantir, Sean was a strategist at Goldman Sachs for eight years, working in a number of areas including equities, fixed income and algorithmic trading.
Serge-Richard Petit-Frère: A promising future for SMEs by 2030

The importance of small and medium-sized enterprises (SMEs) for an economy can be considered a panacea. Indeed, in the OECD area, SMEs represent almost all companies, they generate 70% of total employment and 50% to 60% of GDP. In emerging economies and developing countries, SMEs generate more than a third of GDP and represent 34% and 52% of formal employment, respectively, which indicates the impact of SMEs on employment. The qualities of SMEs are no longer to be demonstrated: agile in times of crisis, SMEs allow economies to regenerate and lead the way to growth.

On the other hand, a paradox persists. Despite the fact that SMEs are the engine of a country’s economic development and standard of living, their access to financing remains very approximate. Hence the constant reflection of state authorities on how to address the “Missing Middle”. This problem, which is addressed by many specialists, seems to be explained by the very nature of these economic agents.

The definition of SMEs certainly differs depending on the region considered, however their attributes remain the same as well as the problems they face:

- Owners often have a lack of financial and entrepreneurial education;
- The financial capacity of the managers, which is often limited, does not favor providing strong guarantees to financial institutions

These problems generally hamper SMEs access to funding. Indeed, they negatively impact the evaluation by financial institutions who base their risk analysis on the ability to build up enough capital, the character of its leader and its ability to provide solid collaterals. Bearing in mind those difficulties, what is the future of SME financing?

**Technology: a solution to the constraints encountered by SMEs.**

Access to Internet and digitalization has turned the functioning of many industries upside down. Its impact will be the same in the financial sector and its use should promote financial inclusion, particularly for SMEs by 2030. Managerial sophistication involves good management practices and implementation of procedure. The rise of Artificial Intelligence (AI) coupled with the power of digitalization, should enable SMEs to have access to robust and adaptive systems allowing them to better manage their operations.

**Financial and entrepreneurial education.**

Nowadays, Internet has made knowledge widely available while allowing entrepreneurs to gain new skills free of charge, or at a very affordable cost. The multiplication of online training (i.e. MOOC) is an obvious proof of that new trend. Webinars and other online training in financial education and entrepreneurship abound. Entrepreneurial education is equally important than gaining additional knowledge because soft skills usually contribute directly to success. Indeed, the research results carried out by the Carnegie Institute of Technology show that 85% of our financial success is due to our attitudes, and that only 15% is due to knowledge. And the good news is that with technology we should have more and more entrepreneurs better prepared, having had access to this type of training.

**The limited financial capacity of entrepreneurs**

We have entered the era of “Big Data”. Billions of devices are connected, and the interconnection of platforms will continue by 2030. Such a trend should enable financial institutions to get to know their customers better. Indeed, robots by 2030 will develop analytical capacities beyond those of humans to produce more accurate analyzes for a more effective mitigation of risks. This should minimize the weight generally given to collaterals when requesting funding. Precedence would be given to the quality of the project and the profile of the entrepreneur.

This new reality will lead financial institutions to modify their business models while capitalizing on digitalization. Those who find it difficult to adapt quickly will have to cooperate with FinTechs or be resigned to disappear.

**A rather promising future for SMEs by 2030**

All the points presented above seem to predict a promising future for the financing and development of SMEs. But for this to happen, several stakeholders will have to change paradigms
and/or put in place specific measures:

- SME managers should: Show openness, embrace digitalization and innovation.
- Authorities/Regulators must:
  - Promote entrepreneurial culture from primary school and strengthen financial education. Young people exposed to this entrepreneurial culture will not all become entrepreneurs, but will contribute to business growth as qualified employees;
  - Promote digital penetration.
- Universities should:
  - Promote the professions of the future (i.e., Application Developer, Data Scientist, etc.), which should lead to the emergence of even more agile and flexible businesses.

Serge-Richard Petit-Frère has a background in management, with a specialization in small and medium-sized enterprise (SME) management at University Quisqueya, completed by a master’s degree in Entrepreneurship and Project Development at the University of Rennes I in France. He also holds certificates particularly in quality infrastructure, in policies and strategies to promote SMEs. He assists enterprises and entrepreneurs by providing them coaching, technical assistance and training. He has worked on several projects, including several related to the tourism, agro industry sectors, and the conduct of several market research. Senior executive of the SOCIETE FINANCIERE HAITIENNE DE DEVELOPPEMENT S.A. (SOFIHDES), he holds the position of Marketing and Quality Director where he works on the marketing of various financial and technical assistance products. He participates in the conduct of innovative projects initiate by the institution. He is actively involved in entrepreneurship education where he collaborates with schools, universities and specialized institutions. He also has extensive experience in the field of filling and distribution of propane gas cylinders having been for more than 7 years co-owner of a SME specialized in the field.
Steve Landman: Today’s Disruption Is Tomorrow’s Progress. What SME finance will look like in 2030?

In the 1800s, scientist Charles Darwin said, “It is not the strongest of the species that survives, nor the most intelligent. It is the one that is most adaptable to change.” Today, those words have never been truer. In the beginning of 2020, we’ve started hearing words like social distancing, quarantine, lockdown, work-from-home, new normal, and digital transformation and acceleration at the very least. As COVID-19 pandemic stretches on, many multinational companies have started to adapt and use all the resources they have to create a new way to operate. To the abled ones, they managed to work-from-home, but for a lot of SMEs, they were left with no choice. That kind of disruption today is not how we used to think of “disruptions”. Especially in businesses, the likes of Uber’s transportation disruption, Airbnb’s emergence in hotels and b&b’s, and even TikTok’s surge in social media among many others; all positive disruptions to our normal. But today, the disruption in our lives, of businesses can’t entirely be positive especially when your small business is barely surviving.

During these extraordinary times and with an uncertain road ahead of us, we remain hopeful. Because these are the times when technology works best, proves its worth and becomes an enabler of businesses. When people were forced to stay at home, they made a way to be entertained and SMEs saw a potential, maximizing food delivery services while others suffered. Others found innovative ways to continue sales and was introduced to online selling. While we say adaptability to change is most critical, many just don’t have the capability. Great things that keep us going. But we cannot just always be reacting to change, we need to be ready to make a change. Because what we’ve known as normal is no longer working, we will need to provide SMEs with an alternative financial system to equip their businesses today and help them survive tomorrow. Preceding a pandemic, we will now see more and more businesses going cashless and it will be more prevalent in many developing countries. SMEs will learn to sell online and make use of technology available. Fast forward to 2030, we will see more digitally driven governments and the rise of digital banks. More sophisticated technology will become more accessible to the market. We will no longer have to present cash, cards or mobile devices. We will pay just by presenting ourselves, our physical selves will be the mechanism that triggers a payment at a merchant or Online. The means which we transact will be the payment mechanism. For example, at the Amazon in the US we pay by walking through a phone NFC reader. We don’t have to take the phone out, it pays by NFC.

In 1999, Kiu Global Founder Steve Landman was involved with a company called Pay-by-Touch which allowed a person to pay by touching his thumb on a thumb print reader and voila the transaction was complete. Now we have QR codes and OTPs... but in the future it will be embedded chips or retina and/or facial or voice scans that will initiate the payment processes. All Know-Your-Customer will be done electronically, document verification for individuals, corporate registrations as well as any tax verification will be done seamlessly and via automated artificial intelligence. Our digital identities will be how we transact. Lending to SMEs will be automated...such as what Kiu Global is doing already. Data entered into an accounting or ERP system will be extracted automatically when an SME wants to apply for a loan or credit. By pushing a button online - the loan origination process will start whereby all the relevant loan application data will be pulled out of other integrated systems. eKYC will confirm the identity of the director and company, documents will be collated and approved by a machine which in turn will initiate an automated credit score and if rejected a chat bot will send a message to the entity of the issue with their loan application for correction or if accepted the funds will be disbursed. Banking interaction will be almost 100% done through technology. AI and conversational banking will become the norm. We will interact with our banks via machine using voice and text. We will be able to complete transactions like transfers, payments and other banking services using our devices without the assistance of a human limiting the need to open physical banks. Security and data storage will become of paramount importance.

Most processing of data will move from the cloud to the edge, the cloud will be only for data storage. With millions of processors at the edge, in mobile devices, home appliances, automobiles and other (IoT) devices; processing will move back to the edge and transactions, computing and approvals will happen much faster- almost in Nano seconds. Security will be the most important component. Security will be done in quantum ledger. Similar to blockchain, Quantum Ledger is a fully managed ledger database that provides a transparent, immutable, and cryptographically verifiable transaction log owned by a central trusted authority. Quantum Ledgers can...
be used to track each and every application data change and maintains a complete and verifiable history of changes over time. Over the last decade, we've seen incredible progress in SME finance, however the development has been much slower than one would expect.

M-Pesa was one of the first fintech’s that became well known and their success was indisputable; nonetheless, the rest of the world has been slow to adopt technology for finance. But now, we are seeing great transformation and we see SME Finance including in the transformation. With the help of companies like Kiu Global which sole focus is access to finance for the SMEs in Asia. Kiu offers a platform to SMEs for accounting and loan automation that allow the SMEs to get credit and loans based on alternative data. Kiu is operating in (6) countries across Asia and is impacting over 40,000 SMEs and the lives of millions of people in Asia.

Steve Landman is a parallel entrepreneur and angel investor. Prior to Kiu, in his role as the Managing Partner of Lotus Impact, Steve is an enthusiastic pioneer in investing in South East Asia startup ecosystem with technological and financial insight from Silicon Valley. He was one of the first members of Oracle. He has founded and sold over 17 profitable companies. Currently, Steve is the CEO of Kiu Global. Kiu developed a cloud-based business management platform (Kiu BMP), similar to ERP but without the complexity and high cost. Kiu BMP comes with a built in AI credit scoring engine to help SMEs and MSMEs (who are traditionally rejected by traditional financial institutions) gain easier access to loans and credit.
SMEs are critical to the global economy, providing on average 50% of jobs and 40% of GDP. The COVID-19 crisis has demonstrated both the importance and the vulnerability of SMEs. There has never been a better time to think about the future of SME financing.

I would like to put this in the context of some global trends evident both in society as a whole, and specifically in the financial services industry.

First, we need to stop thinking about product offerings, and start designing solutions based on the real needs of SMEs. Many SME owners are neither financial nor legal experts, but they know what their pain points are. SMEs are not a homogeneous group. In providing finance to SMEs, we need to take a human centered design approach, and that means cutting across the traditional lines of banking, lending, factoring, insurance.

Second, it means looking outside the financial services industry to find the easiest ways for SMEs to access these different types of finance. For this to be really successful, some regulatory changes may be needed in terms of which types of entities can offer financial products, and players from across the spectrum of finance will need to partner to provide a simple to access service to SMEs.

Providing finance that meets the needs of SMEs will involve bundling together products and services that traditionally were provided separately (or not at all) by different companies. Furthermore, whilst banks, lenders, insurers, factoring companies etc. will still have a role to play, the distribution channel may well be different. We have already started to see this with companies such as Grab, the ride hailing company in Asia, acting as a kind of “super app”, even if in some cases it’s currently a person with a table standing in the street as a “super-agent”, rather than an app on the customer’s phone. It’s not hard to imagine names such as PayPal, Amazon, Mastercard, Square and WhatsApp fulfilling that role, but it means that financial services companies will have to get used to being providers behind the scenes and not distributors.

COVID-19 has accelerated the necessity of having easy to use digital financial services. Providers of financial services need to partner outside their industry to leverage the advantages some of the new technology driven models have. In many countries this will require regulatory changes and regulators will have to balance compliance issues, like KYC, and consumer protection, with the need to reach SMEs easily and cheaply – this is not an easy balance to get right.

The COVID-19 crisis clearly demonstrated the need for emergency financing to respond to crisis. In many cases this was provided by governments, with greater or lesser success. Even to the extent that money was available, SMEs and especially smaller companies which may be more likely to be run by minorities, women or older people, struggled to access it. In many parts of the world, micro SMEs (MSMEs) operate as part of the informal economy, and this adds to the complexity. Ideas to address this include setting up ways for SMEs to register themselves via mobile phones, perhaps with the incentive that they would then qualify for emergency funds in certain circumstances. Another approach could be to use larger companies as a way to reach their suppliers, which might be particularly suited to the agriculture sector. The open banking developments in Europe pave the way for easier access to finance for SMEs, and the concept can be extended to digital wallets, point of sale devices and payment mechanisms like PayPal.

For longer term financing, whether in the form of capital investment, lending, factoring or insurance, providers need to continue to work with alternative data sources to assess risk. It takes time to build these models and they need to be adjusted and enhanced on a regular basis. The advantage of using alternative data sources is not only that it can make financing available to a larger group of SMEs, for example using mobile phone records in addition to bank data. It can also become more real time and, in some cases, prevent losses before they occur. For example, an SME might be able to get access to more credit or contribute insurance to a health insurance plan based on their sales as measured through a PoS device. Insurance policies based on parametric measures could be triggered in the event of a natural disaster such as an earthquake or a flood. Whether the policy is held by central or local government, which then pays the SMEs, or directly by the SMEs themselves, they payment could be directly made to the SME, for example based on the sales for that month.
Innovative approaches by both governments and the private sector, and a degree of experimentation and adaptation, will be needed to improve access to finance for SMEs. However, the prize is huge in terms of the knock-on effect for the economy if SMEs can become more resilient.

Susan Holliday is an advisor to the International Finance Corporation (IFC) and the World Bank where she focuses on insurtech and insurance for SMEs and women. She has served on insurance sector boards in UK, Brazil and India and is currently a board member of Tribal Planet, a Silicon Valley tech company, and an advisor to Eos Venture Fund and to several start-ups, and a non-resident scholar for the Insurance Information Institute. She has worked across life, health, property and casualty insurance and reinsurance at both global and regional levels and led strategy for emerging markets and fintech. She is a published author of the Fintech Circle InsurTech Book and the AI Book. Prior to joining IFC, she was a managing director at Swiss Re, serving as head of strategy for Swiss Re’s global reinsurance business and before this CFO of Reinsurance Client Markets and group Head of Investor Relations. Before Swiss Re, she was in equity research and equity sales covering the insurance industry at UBS, JP Morgan and Paribas. Ms. Holliday is a Chartered Accountant and a member of the Chartered Institute for Securities & Investment in the U.K. She graduated from Magdalen College, Oxford, with a degree in Modern History and completed Harvard Business School’s Advanced Management and Women on Boards programs.
In most regions across the globe, Micro, Small, and Medium Enterprises (MSMEs) are the economic engine accounting for most of the jobs. Latin America isn’t much different, according to (Dini and Stumpo, 2018), MSMEs account for 99.5% of all companies in the region and 61% of all the formal jobs. However, while their European counterparts contribute 20% of the region’s GDP, the Latin American micro enterprises contribute only 3.2% due to a US$ 1 trillion financial gap they face as well as their limited efforts to adopt technologies and production process improvements.

Business owners also face many challenges to run their business as shown by the Doing Business 2020 report, where no country in the region is ranked on the top 50 places on ease of doing business. Even so, there is a rapid improvement in the SME market in the region due to some relevant trends.

The rise of FinTechs: FinTechs are aggressively expanding in the region fueled by increasing amounts of venture capital funding. In 2019, Latin American FinTechs raised almost US$ 3 billion, elevating the region to one of the most active fintech markets in the world. By offering high quality digital financial services in the region, they are raising consumers’ expectations on financial services, leading small business owners to start to demand the same level of quality they have on their personal finance to their business.

Digitalization: The region is one of the fastest digital adoption markets in the world with 52% of mobile internet penetration, and 66% smartphone penetration, according to The Mobile Economy Latin America 2019.

Latin Americans have been fast in adopting FinTechs as shown by EY Global Fintech Adoption Index 2019 with all the most economically relevant countries with adoption rates above or the same as the global average of 64%, higher than developed countries such as the US and Japan.

The global pandemic has been an important catalyst to speed up the digital adoption as SMEs are being forced to move their business online to keep selling on platforms such as Rappi and Mercado Libre and accept online payment.

Government initiatives: The governments in the region are seeking forms of facilitating the MSMEs registrations (“Micro Empreendedor Individual” in Brazil, and “Sociedad por Acciones Simplificadas” in Mexico are examples of that effort) and are also improving local infrastructure to facilitate the digitalization and increase competition (e-invoice, QR codes platforms, instantaneous payment platforms, and Open Banking).

The SME Financing in 2030
Looking back on the past 10 years, it is striking how much has changed for the SMEs in Latin America. Since 2020, the impact of FinTechs in the region together with government initiatives transformed the financial landscape for the MSMEs in a way hard to find in other places in the world.

Governments in the region facilitated the incorporation and management of small companies by creating simpler structures that can be incorporated online in just a few hours, a process that used to take days with many in-person visits can now be done fully digitally.

Entrepreneurs are starting businesses now more for opportunity rather than necessity; they are more educated and tech-savvy, increasing SMEs’ productivity, and the demand for better digital financial services.

FinTechs expanded their portfolio of financial services to offer a more holistic service to SMEs, offering business banking accounts, loans, accounting, payment, and accounting services, becoming the leading providers of financial services for SMEs in the region. Mercado Pago and Rappi became the largest financial service providers for SMEs in the region, following a similar path as Ant Financial in China.

Large banks had a hard time keeping it up as most of them were still focusing on digitizing their retail customers and improving their services to this segment. The SME segment was never very profitable for the banks but FinTechs leveraging technology, digital channels, and new data sources to reduce acquisition and support cost while improving cross-selling, due diligence, and digital services quality, turned serving SMEs a profitable opportunity. In that context, smaller and less
technological financial institutions were forced to specialize, partner, or merge with FinTechs that were looking for quick ways to acquire licenses.

Notwithstanding, the financial gap in the region wasn’t eliminated, it was drastically reduced as companies such as Rappi, Mercado Pago, Amazon, Clip, Stone, and PagSeguro integrated marketplace and/or payment processing to get more data to analyze to lend money to small businesses that previously wouldn’t be eligible to loans by banks.

Due to FinTechs such as Oyster, Cora, and Linker, it is now possible to do the onboard fully digitally, opening a bank account on the same day, instead of a few months as it used to be.

Most countries now have fully adopted e-invoices, simplifying the process to comply with the local tax authority, facilitated by the many ERPs, accounting systems, and digital banks that offer integrated services for invoice and accounting. Nevertheless, many of the accounting processes of the companies were automated or simplified by the connectivity of FinTechs and financial institutions through Open Banking APIs and AI. All this led to a great productivity leap in the SME market in the region, driven mostly by the fintech rise in the region.

**What to expect for the next 10 years?**

FinTechs are becoming a transformative force in the region and they will completely change the SME financial services landscape, helping reduce the US$ 1 trillion financial gap in the region. In the face of those changes, large financial institutions won’t be able to react properly as they are focused on digitizing the retail consumers to not lose ground for other FinTechs that are disrupting that market.

Technology adoption, as well as improvement in management processes, will increase as a new generation of tech-savvy and better-prepared entrepreneurs enter the market looking for purpose and freedom in their working life. This will drastically improve SMES’ productivity and, consequently, have a positive impact on the regional economy.

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Thiago is a fintech entrepreneur, investor, and columnist! He has been actively engaged in the Latin American ecosystem since 2010. During this period, he evaluated 2,600+ and invested in 60+ startups from 9 different countries while working at Wayra Brazil and Startupbootcamp Fintech Mexico. He writes about fintech in Latin America in international and regional publications and also develops reports analyzing the ecosystem in the region. Thiago holds a BS degree in Mechatronic Engineer from Universidade Estadual de Campinas (UNICAMP) and a General Business Studies Certificate with Concentration in Finance from UCLA. He’s currently a Product Manager at Oyster Financial, a challenger bank for SMEs in Mexico, leading engagements initiative.
Thinking ahead to the state of SME finance in 2030, I am hopeful it yields a substantial improvement in the government playbook to support small businesses in the next major economic meltdown. The Economist, in its 27th June 2020 edition (The next catastrophe (and how to survive it)), makes the case that governments must do more to prepare for foreseeable “low-probability, high-impact events” such as the COVID-19 pandemic, for which few countries had the “winning combination of practical plans, the kit those plans required in place, and the bureaucratic capacity to enact them.” Though not specifically speaking to government efforts to support SMEs, I believe the analysis - and prescription - to be apt.

To their credit, many governments early in the COVID crisis recognized the need for financial support to SMEs, and so acted with some urgency to implement various funding measures. This is a positive development, and shows that governments have learned from the financial crisis that support for small businesses is critical to maintaining employment and broader macroeconomic activity. However, it appears that the policy playbook was designed to “fight the last war”, rather than deliver a most efficient and effective support for the current circumstances. With the benefit of hindsight, then, the regulatory playbook in 2030 should be updated to address several core areas for improvement, focusing on speed of delivery and structure of support.

For a small business suffering severe constriction of cashflow, timing of support is crucial to survival. Pre-COVID studies reported that nearly 75% of small businesses maintained a cash buffer of 60 days or less. This provides policy-makers precious little time for the design, approval, implementation, and delivery, of financial support in a meaningful manner. For example, in one of the countries in which we operated, the country first entered lock-down in early February, but first applications for government-backed SME loans could only be submitted to banks from the end of April - nearly 12 weeks later.

For many small businesses, a delay of so many weeks from the initial economic shock to the delivery of financial aid is too late, and even many of those that survive the initial shock may be only limping along, in “zombie-like” state. Such timeframe can and should be reduced, by virtue of a pre-agreed recipe book of financial stimulus and support products for SMEs. When the next crisis hits, it is already too late for governments to entertain the policy debates of small business finance minutiae. Governments (no doubt, inspired by the SME Finance Forum) should decide ahead the priority of desired outcomes of an economic stimulus, delivering the most socio-economic benefit for the taxpayer buck, and design financial products accordingly. Issues such as potential moral hazard, which small businesses “deserve” to be supported, and the appropriate relative amounts and structure of support for each business, should be pre-settled, so that practitioners can implement the details, such as deciding eligibility requirements, whether personal guarantees are required, what information and documentation will prove eligibility, and what are the terms and conditions (eg: loan terms, use of proceeds, guarantees, interest rates, grace periods, etc.) for receiving the support.

As important as it is for governments to have settled upon a set of policies, the physical and technical infrastructure for deployment of such support must also be prepared. The pandemic clearly highlighted the extent to which many banks had failed to digitize their services for small businesses which, coupled by the lack of policy preparedness, only exacerbated the delays in delivering needed support.

In many places, banks were ill prepared to support customers in the circumstances of a pandemic. Lockdowns and quarantines meant bank staff could not attend to their offices to meet with or answer calls from SME clients. Regulations for protection of personal data impeded technology delivery through “the Cloud”, making work-from-home for bank staff impracticable. Underwriting requirements for original documentation necessitated the small business owner to file physical loan applications in person, with overloaded socially-distanced bank staff working to clear a flood of applications. Even where systems were in place for digital loan applications, they were often not prepared for the sheer volume of demand, with the result that some technically advanced banks had to shut down their systems to handle the flow. It is reasonable to believe that banks by 2030 will have digitalized their services so as to handle another pandemic-like crisis – but will they be prepared, say, if...
the next crisis were (as The Economist posited) to impact the electric grid itself?

Finally, too, government policy must recognize that a crisis will eventually cause many small businesses to succumb, even if certain forms of aid can be made readily available. However, whilst a crisis often will be fatal to many small businesses, it is also likely a font of new opportunities, deserved of entrepreneurial vigor and financial support. Therefore, policy should recognize the distinction between the small business entity that is dead, and the entrepreneur behind the business, who will likely be very much alive and seeking quickly to start a new means of income.

Specifically, government policy should emphasize quickly spinning out any assets of the failed business into more productive hands, and separately, helping the failed small business owner to restart a next venture. The former likely requires reform to bankruptcy law and practice – including the practical infrastructure upgrade to support a large surge in bankruptcy filings, perhaps in an environment where the courthouses are closed for physical business. For the latter, it may mean helping the entrepreneur improve a credit rating shattered by the crisis, or perhaps obtain access to certain pools of start-up capital.

Thinking ahead to 2030, it is clear that so much more preparation can be achieved to support SMEs in the next crisis. Let us hope that 2030 does not bring upon us a new crisis, as in 2010 and 2020 – however, with so much riding on the health and recovery of small businesses, let us anyway be prepared for it.
African Poverty – SME impact investment the Solution. Poverty is the single largest challenge facing the African continent. Poverty across the continent may be lower than what current estimates suggest, though the number of people living in extreme poverty has grown substantially since 1990, according to the latest World Bank Africa poverty report. The World Bank report estimates the share of Africans who are poor fell from 56% in 1990 to 43% in 2012, however the number of people living in extreme poverty rose from 280 million in 1990 to 400 million in 2012 driven by a population growth which is higher than the poverty reduction rate.

Of the 17 UN SDG goals, goal number 1 of eradicating poverty is the ultimate challenge faced by the global body and by its own admission through a baseline projection which suggests that 6 per cent of the world population will still be living in extreme poverty in 2030, the target of reducing poverty to less than 3% of the global population. What is extremely alarming is the large margin by which the African continent will miss this target. All projections indicate that 23% of SSA 2030 population of 1.7 billion will still be living in extreme poverty. The continent will hold the tag of having 9 out every 10 people living in poverty on the continent.

There is a clear argument that the African continent needs to look beyond just the UN strategies to come anywhere near addressing the imminent failure to achieve the SDG goals by the close of the “last decade mile”. The UN strategy has been skewed towards strengthening and providing enhanced social protection to the most vulnerable. Social protection systems help prevent and reduce poverty and provide a safety net for the vulnerable. However, social protection is not a reality for a large majority of the world’s population.

In 2016, 55 per cent – as many as 4 billion people – were not covered by any social protection cash benefits, with large variations across regions: from 87 per cent without coverage in sub-Saharan Africa to 14 per cent in Europe and Northern America. This strategy will not be able to take Africa out of poverty. What the continent needs is a clear focused approach to unlocking the potential of its large SME sector. Every economic paradigm on economic growth highlights the key role SMEs play in advancing the growth of emerging economies in their contribution to employment creation, poverty reduction and contribution to GDP. This undoubtedly holds the solution to taming the continent’s poverty challenge. Creating household wealth at the bottom of the pyramid with the poorest of the poor is a tested strategy that transcends benefits across all the human factors of health, education, access to clean water and sanitation and the universal right of housing for all.

The International Finance Corporation, IFC, a member of the World Bank Group, has estimated that in Africa, small and medium enterprises, SMEs, face a financing gap of over $136 billion annually and account for 90 percent of all businesses in Africa. This is where the investment potential of the continent lies. The African continent has one of the fastest growing economies globally with Sub-Saharan Africa holding six of the world’s 10 fastest-growing economies in the world which generally average GDP growth of 5.2%, 3% above the average growth in developed economies. The African continent’s economic growth is supported by a young and highly educated and vibrant population of youth, with 60% of the continent’s population being below 25. Africa holds 30% of the global remaining natural resources and yet contributes less than 3% to the world’s global GDP growth. The continent is endowed with the largest of reserves of natural gas, oil, gold, copper (with DRC and Zambia being in the top 8 countries with the largest copper production in the world, producing nearly 2 million tonnes a year between them), precious minerals and diamonds.

Bilateral and multilateral support to the continent’s challenges that has continued to pour into the continent has not created the necessary impact for countries to emerge out of their challenges. It is estimated that the continent receives USD 19 billion in aid (even though under the Illicit Financials Flows it is estimated that USD 68 billion leaves the continent). The continent’s poverty levels continue to increase or are not decreasing at a rate to create the desired impact. It is imperative that we unlock the financing to the SME sector, in blended financing to support sustainable economic growth that has both social and environmental impact as well as an investment return to drive a new agenda towards the last mile decade of the SDGs. The approach would essentially address the IFF challenge.
By 2030 Africa’s population will be 1.7 billion and it will carry a poverty level of 23% and as high as 42% in some countries. It is imperative for all African governments, the private sector, international investors and cooperating partners to realign their support and exploit the potential that the SME sectors offer in not just poverty reduction but the ultimate economic emancipation of the continent. We can see the freight train coming!!!

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Trevor Hambayi, has extensive global experience spanning over 20 years, both within the private sector, and quasi government organizations, which includes stints with the UN in a conflict zone, investment analysis with a US based financial institution and consultancies with aid organizations and industry specific associations in Zambia. Mr Hambayi, a Financial Analyst and currently a PhD research Fellow with the University of Bolton, advocates for the African continent’s economic emancipation through improved access to finance for SMEs. He is Senior Managing Partner at Development Finance Associates, a Social Enterprise Fund Management Company that supports social investment in start-ups covering grants, debt finance and equity investment. Mr Hambayi consults on matters relating to finance that include, investment, funding sources for business enterprises, financing models, economic stimulus, bond issuance and private sector interventions to economic growth.
DIVERGENCES
Max Johnson: What will SME financing look like in 2030?

What will SME financing look like in 2030? What will profoundly influence its ecosystem? Will unexpected players dominate the market? How different will SME financing be in 10 years from now?

Cut-throat competition has and will always subsist between FinTechs and Banks. On the contrary, we have witnessed numerous symbiotic relationships, albeit, marginally fixated on SME customers. In recent years, SME Fintech adoption has soared with Micro SMEs at its focal point, and by 2030 these businesses will have grown to Small, Medium, and even Large organisations. FinTechs, on the one hand, will need to thrive alongside these business customers or risk them trading UX, efficiency, and availability for critical features offered by Banks. Banks, on the other hand, will struggle to boost their market share of Micro SMEs and set out to target Medium to Large businesses. Their principal objective for this direction will be pivoted towards partnership with proven FinTechs to offer missing functionality when the solutions are expensive or timely to build in-house.

According to the World Bank, over 50 percent of SMEs in the emerging markets lack access to finance. This number touches a staggering 70 percent when micro SMEs are considered. The primary concern here is the lack of sophisticated financial infrastructure within these markets. At present, incumbent Bank processes are lengthy, time-consuming and carry the sheer volume of overhead which in turn reflects as overpriced products for SMEs. FinTechs are taking no time to seize this opportunity by forging products which disburse the funds within minutes of an SME applying for a loan. With this pace, by 2030, FinTechs will acquire a dominant market share of SME Finance.

FinTechs will also have less reliance on collateral and formal documentation, expanding their reach in developing markets by applying machine learning and AI. Consequently, they will exhibit a profitable model by commencing with Micro SMEs as they approach to utilise that data as a platform to provide significant loan products. Forward-thinking and successful, FinTechs will leverage their lending platforms and offer them ‘as-a-Service’ to Banks.

Banks can then choose to replace their existing infrastructure and processes with the Fintech as a software provider, or partner with the Fintech on a commission basis to send customers, from whom the bank cannot earn lending profits. We have already seen successful partnerships between multiple FinTechs with unique SME value propositions. These kinds of Fintech ecosystems have emerged from the willingness of SMEs to share data and Open Banking principles. Their success isn’t just down to seamless integrations. It is built from a customer-centric approach, a compelling value proposition, and above all else, a clear focus and objectives.

Bearing that in mind, an SME not only wishes to pursue a loan but to utilise that capital to: expand their reach, increase their stock, bolster their sales team and seek partnership to relieve a part of their admin overload. For example, If I wanted to set up my online retail shop within the UK: I can onboard digitally to an SME account within minutes, which includes a linked cloud ERP account. Another Fintech organisation can then instantly build my retail shop page with complete website templates, inventory management, card payments acceptance, and even offer lending options to my customers. All of these functionalities which are interlinked can then schedule automated tax (VAT) payments, which leaves the SME to emphasise on the most significant aspect of their business and away from squandering time and money stressing about sending invoices or tax reports. These types of partnerships can be seen worldwide, but the majority of them are in an MVP (Minimal Viable Product) stage where the target segment is Micro & Small SMEs. Within the next ten years, these Digital Banks and FinTechs will extend their offering together, centered on enabling Micro & Small SME’s to advance into Medium & Large businesses. FinTechs failing to do so will risk losing their most profitable and large-scale clients to traditional banks who can support them.

We are currently looking at a surge in the number of SME FinTechs across the world because they are equipped to take advantage of the underserved SME segment. What sets them apart is their competitive advantage within three key areas:
1. CLEAR FOCUS AND OBJECTIVES

2. NO INGRAINED TRADITIONAL WAY OF WORKING

3. NO LEGACY INFRASTRUCTURE

On the flip side, Banks at present, serve numerous segments across multiple departments, and truth be told, SMEs are by far not a high priority. However, FinTechs can have a laser-like focus on specific SME pain points and be able to implement solutions quickly, without having the trouble of spending months in bureaucratic meetings and lengthy UAT processes. The results show strong growth in Fintech adoption rates, up to 61% in some markets, and this trend is ever-increasing. In 2030 this gap will turn in a chasm. Banks will revert to acquiring FinTechs to increase their SME acquisition and will look to push their products onto the bigger subsections of their clients. Furthermore, Banks will need heavy investments to be able to create a unified experience for the SMEs across their Bank and Fintech products, which will not be discerned within the forthcoming decade. Considering the current statistics, the Global SME Fintech adoption rate is 25%, and this builds up to 54% for SMEs with international customers. As the world shifts to becoming increasingly interconnected, affordable Fintech solutions will be the norm and Banks will face trouble to cope on their own. As a result, Banks will be involved within Fintech ecosystems or they will detach themselves from this segment to target large businesses.

Altogether, In 2030, SMEs will have a choice to be a part of a truly digital ecosystem which is built for them, allowing them to easily grow into international businesses or a traditional bank account with a few FinTechs products loosely stitched together.

Max Johnson, Head of Business Solutions in Fidor Solutions Max brings to the table extensive banking knowledge with experience of designing digital banks across Europe, West & Sub-Saharan Africa and SE Asia. Combining this knowledge with his prior experience of heading an analytics team that designed global complex reporting solutions, facilitates his ability to build complete digital banking solutions. We can affirm his skills through his comprehensive experience in creating business cases and business modelling for digital banks all over the world.
Before talking about what will happen with SME Finance in 2030, it would be correct to understand what small and medium-sized businesses will look like in 10 years.

To begin with, the number of SMEs will be much greater than now. This will be the result of two complementary trends. First, the rapid growth of the middle class in emerging countries will lead to an increase in the number of people who are ready to start their own business and have at least some savings for this purpose. Secondly, there will be a noticeable decline in the “infant mortality rate” of startups, both in developed and emerging markets, which will lead to an increasing number of startups moving into the category of regular small and medium-sized companies. This will be caused by several reasons. The first reason is the growth of the quality of basic business education, including e-learning. Second, more and more people will get a “financial cushion” (for example, in the form of a universal basic income), which will allow them to wait longer for the company they founded to start generating income.

At the same time, the risks for regular SMEs will increase. In fact, it will be similar to what happened in the 20th century with the health of people – a reduction in infant mortality and an increase in life expectancy led to an increase in the number of diseases of people who lived to middle age. Another important trend is the growing number of industries in which SMEs will play a key role. More and more SMEs will start to appear in industries related to space, biotechnology, energy, and other industries that were previously considered the area of large corporations. Plus, industries will emerge that we still don’t even know exist.

What conclusions can be drawn from all this regarding SME Finance? First, the existing infrastructure in the form of both traditional financial institutions and fintech companies will simply not cope with financing the increased number of SMEs. Second, risk management in SME finance will become much more complicated, and current approaches to risk management will become irrelevant in 10 years.

Second, the importance of environmental risks will increase dramatically. We have already faced the risks associated with the COVID-19 pandemic. This is not a completely new risk. I have been involved in the international factoring industry for more than 20 years, and I remember, for example, the story of the bankruptcy of a Hungarian factoring company triggered by the outbreak of bird flu that caused the geese epidemic in this country. But for the first-time epidemiological risk has begun to play such a significant role on a global scale. Due to the increasing volatility of the weather, which we see in more and more countries, the factor of climate risks will definitely increase. In other words, there will be more risks and their occurrence will become less predictable. In such circumstances, traditional approaches to risk management in financial institutions will completely stop working. I believe that there will be a separate industry specializing in independent expert risk management, whose clients will be financial companies. I especially believe in the use of crowd technologies in risk management, in which groups and communities of independent “people from the street” will be formed to assess the unobvious credit and other risks of financial business. This may in some ways resemble a...
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jury set up to help make court decisions. At the same time, the loss ratio and risk premium will not necessarily grow. The point is precisely that the risks will become more diverse and the traditional approach to assessing them will cease to work. As a result, I can say the following. The world of SMEs will inevitably become more diverse and multi-faceted in ten years. And in order to keep up with these changes, financial companies (both traditional financial institutions and fintech companies) will also have to make more diverse and creative approaches and tools for working with SMEs.

Mikhail is one of the prominent figures of the international receivables finance industry. He started in 1995 with Rossiyskiy Credit Bank as Head of Factoring Department. In 2004-2009 Mikhail served as the CEO of National Factoring Company - the first ever specialized factoring company in Russia. In 2004-2015, Mr. Treyvish was a Member of the Board of Directors of International Factors Group (IFG - a global trade association for factoring and receivables finance) and the Chairman of IFG in 2008-2009. In 2009 Mikhail was elected the Chairman of Asian Chapter of IFG. In 2014-2016, Mr Treyvish was consultant on factoring of European Bank for Reconstruction and Development (EBRD). He also participated in consulting projects on factoring in Kazakhstan, Armenia, Indonesia and Vietnam. Since 2016 Mikhail has been a researcher and entrepreneur in the field of crowdsourcing. He is the Founder and CEO of OmniGrade - an international crowdsourcing platform that for companies, organizations and projects with ambitious noble goals is a tool allowing to form an international group of supporters, inspired by their vision and ready to help them on an ongoing basis. Mr Treyvish is also the founder and Chief Editor of the FutureBook - the book about the future, that is, how human civilization will look like in 20-25 years, created with the help of crowdsourcing.
Modise Motloba: 
Inclusive Financing and Innovation as a Catalyst for SME Growth

The South African economy has undergone a substantial transformation and the diverse structure of the economy is a critical aspect of its historical and current growth performance. South Africa from the international experience shows that, for the country’s stage of economic development, the SME sector should contribute around 30 percent of GDP, or more than double (OECD, 2017). SMEs employ 47% of South Africa’s workforce, contribute more than 20% to the country’s gross domestic product (GDP) and contribute about 6% of corporate taxes (Liedtke, 2019). It is evident government can grow jobs at a faster rate if they utilise SMEs to a larger extent as their service providers, and the share of SMEs will continue to contribute significantly to the economy, although they struggle with funding which requires both the public and private sectors to provide the right support to enable SMEs to grow, now and beyond 2030.

The government has committed itself to locating the country’s SMEs within the global economy in such a way that they will improve and contribute to the achievement of the specific domestic growth and equity objectives. However, government needs to pay more attention to SMEs and give the support that is required, since the current policies have done little to create effective support agencies to help support SMEs and grow their business. In addition, the awareness of many of the government’s support schemes remains very low, and support from government favours big business rather than SMEs. Therefore, the role of SMEs has to be recognised by the government and financial support has to be prioritised for the country to move forward. These need to be addressed, and there is a need for government policy to fill gaps by creating an enabling legal framework, facilitating access to information and advice, boosting procurement from small firms, improving access to finance, and affordable physical infrastructure.

SMEs remain a critical force in both developed and developing economies; the SME landscape has changed, bringing new opportunities and challenges to the funders, government and policy makers. Funding is a critical factor observed to be impacting SMEs and the impact is not only on the bottom line of the SMEs level but also on the productivity of the entire sector. The South Africa government wants all formal jobs to be created by SMEs by 2030 (National Planning Commission, 2011). While considered as the solution to the economic, and employment problems of South Africa, it is the SMEs that, in fact, need the lifeline to provide the much-needed employment in 2030. SMEs will be a key factor in developing countries, amongst others, by determining the country’s economic growth and strategy to sustain the economy’s global competitiveness. It has been identified as the major driver of economic growth, as advances in new technologies, a greater focus on knowledge creation, innovation and job creation strengthen it.

SMEs have become more responsive and faster in their responses to changing global markets and industry developments, therefore, they are capable of rapidly adapting their physical and intellectual infrastructures in order to exploit changes in technology. This might require SMEs to develop specific strategies, teams and performance measures to foster innovation. However, there is no easy or immediate route for the SMEs to succeed in the future, hence, SMEs need to act on improving existing support and build new ones to refocus and rebalance as well as innovate for the future. At the same time, an assurance from the government is also required to support innovation by providing SMEs with adequate protection through legal provisions administered effectively, and policy design, to address the entire ecosystem effects. Above all, for SMEs to succeed, depends on willingness to take risks and implement changes.

SMEs will evolve over the coming decade and contribute in the economic shifts as nations mature. SMEs are diverse with distinct groups, each with specific drivers of success, and, in developing countries, there is a new consumer class emerging. Increase in demand from these consumers and changing patterns of society open SMEs to new and more opportunities for economic diversification, which contributes to change in market domination. The demands bring an opportunity for SMEs to innovate in order to meet the societal needs, and this will increase competition on the global and domestic markets implying that some SMEs cannot sustain cost advantage in the long term and others will dominate the market. This has to do with innovation being not a one-time exercise; as it involves continuous efforts in re-inventing the SMEs’ products,
services and processes in the light of market and technology developments.

SME financing in 10 years from will be different in many positive ways. From the uncertainty caused by the COVID-19 global pandemic, financial institutions are cautious about SMEs, as many of the resources given to financial systems now are not translating into credit for SMEs. However, the pandemic created an opportunity of awareness for funding available, given that the lack of financial knowledge was a major barrier to SMEs accessing the required support. Therefore, financial institutions should use this opportunity to evaluate their funding model pre-COVID, during COVID and post-COVID to ensure that targeted intervention of governments, FinTech, and financial institutions are able to help those SMEs that are most likely to survive the pandemic, the emerging and the risk takers, necessary to restore growth. In the coming years, information flow will be key to SME financing, which includes data collection, portfolio analysis, and market forecasting, etc. The majority of financial institutions are currently being forced to digitise faster, and the use of digital platforms will increase turnaround of SMEs to access funding. Funders and SMEs partnerships, and non-funding service by financial institutions, will be tools to ensure those SMEs’ development, and a flexible and adjustment key will be applied in funding SMEs. In addition, an increase in partnerships between financial institutions and governments, with other financiers in addressing SMEs’ financial challenges will have improved to work towards improving the growth for the SME sector and its contribution to the economy.

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Small and Medium-sized Enterprises (SMEs) are the “backbone” of the Asian economy, as they support more than 96% of all Asian businesses, equivalent to two out of three private-sector jobs on the continent. It is therefore vital for Asia’s economic success to have fully functioning support measures for SMEs. Ironically, this sector has not been receiving optimal support. Chief among these obstacles is the ability to access finance. Information asymmetry between SMEs and financial institutions often results in these lenders requiring collateral as a safeguard to offset the greater credit risk.

Second, many SMEs rely on manual, labor-intensive operations and lack surplus cash reserves. Finally, the availability of relevant skills and affordable talent in the workforce is not sufficient to meet the entrepreneurial needs of SMEs. Collectively, these reasons make SMEs particularly vulnerable when exposed to unexpected risks, such as COVID-19. Crises accelerate history, forcing us to adapt to the immediate needs. The Covid-19 crisis is such a moment. Efficient and sustainable financing systems are necessary for financial institutions to be able to provide instant liquidity for SMEs, and subsequently facilitate smooth trading and transactions.

By 2030, the development of FinTech solutions will have disrupted multiple industries including finance. SME financing will be powered by the processes of digitalization, customization and innovative partnering over the next 10 years.

Digitalization – SME financing emerges in everyday business
Empowered by FinTech, the loan application process in 2030 has become fully digitalized, with ubiquitous SME financing service the norm. SMEs are offered digital self-service journeys, including appropriate product recommendations and automatically conducted eligibility checks. At the same time, financial products and services can be embedded into third party, non-financial platforms in days thanks to lightweight API integration and trust-by-design technologies like blockchain. This enables SMEs to access financing in a digitized way across a multitude of scenarios. Take Supply Chain Finance (SCF) as an example. SMEs that need SCF the most typically have the least access to it. Using traditional SCF methods, only an anchor-company’s first-tier suppliers are likely to be granted a loan; many SMEs further down the supply chain struggle and can only borrow at high interest rates or against costly collateral, which hinders their growth. In the future digitized world, loans can be issued to lower-tier SMEs much faster and with greater ease. The accumulated data produced within a given supply chain forms a comprehensive set of labels across all tiers of SMEs that could measure SMEs’ creditworthiness using data such as transaction history, order performance, and any history of late or canceled deliveries.

Additionally, FinTech-backed risk assessment is being processed in a transparent and data-driven way, such that all involved parties, including financial institutions, have full visibility of the supply chain. With information flow, capital flow and logistical details exchanged in real time, these creditors are able to provide SMEs instant, relevant financing options as the demand arises. Making such technical integrations with ecosystems requires corresponding in-house technical capability. By 2030, digitalization is no longer a choice for financial institutions. Following the rapid digitalization of loan products, SMEs will require additional tailored services. By 2030, increases in data availability, servicing channels, and risk management capacity of credit institutions give SMEs more service providers to choose from. Especially in a post COVID-19 world, SMEs will look for flexible solutions and reliable financiers that can enhance their productivity and competitiveness beyond just providing capital. Tailored services will therefore be the main differentiating factor for SMEs when selecting a loan provider. In many ways, financial institutions and SME business owners share the fate since both sectors grow and expand, or struggle, together. By analyzing operational performance and predicting financing needs, loan providers can assess what kind of finance is needed to establish a new revenue stream. In a widely cited Harvard Business Review article, the SMEs’ lifecycle is broken down into 5 stages: existence, survival, success, take-off, and maturity. Many SMEs struggle or fail due to the difficulty of receiving loans receiving loans suitable for their current lifecycle needs. Thus, guiding SMEs toward suitable products or services can become a crucial service offered to SME business owners.

Artificial intelligence and machine learning can further aid in this process, producing smart decisions while maintaining transparency with SMEs. For instance, during the SME’s growth stage, tailored, digitalized services such as market position analysis, acquisition advice, revenue growth recommendations, and financial planning can be added. Together, these tailored
financing services will enable financial institutions to unlock new financing opportunities for SMEs and support their growth.

By 2030, the future relationship between SMEs and financial institutions will be defined by partnership. Financial institutions take a long-term view to their individual SME relationships by moving away from purely transactional services and instead issue capital for equity interest. With the increased use of FinTech, IoT and intelligent automation, loan providers will no longer focus on providing pure capital, but on guiding many areas throughout SMEs lifecycle, making contributions to employment, revenue growth and social inclusion.

In ten years, when the problems of inadequate technology and information asymmetry have been solved and loans are readily accessible to creditworthy SMEs, a financial institution’s main competency is to have an investor’s mindset. With this investment will too come mentoring and industry expertise, along with other resources required of early-stage businesses. For instance, financial institutions collaborate with SMEs by open sourcing fintech capabilities so that SMEs may develop their own solutions, thus forging an ecosystem amongst participating parties.

As we march through 2020 and beyond, the SME sector is facing a global slowdown and inevitably face a liquidity squeeze. IFC estimates 600 million jobs are needed by 2030 to absorb the growing global workforce, which makes SME development a top priority for many governments around the world. It is therefore important for Asian countries, where SMEs represent a significant majority of the economy, to diversify SMEs’ channels of financing. Through adversity we grow stronger. So too will SME financing become more robust as a diverse range of loan providers are keen to enable SMEs to survive and thrive amid the turmoil.

Mohan is the Head of Regional Partnerships at WeBank. Mohan’s role is to harness the power of FinTech and to promote fintech collaborations. Before joining WeBank, Mohan served as consultant to several social enterprises in Africa and Southeast Asia, focusing on impact investing and green finance projects, in which she helped Somalia refugees, impoverished farmers and endangered crocodiles. Prior to this, Mohan worked for American Express as a senior manager in the Global Corporate executive office, where she managed strategic planning and investment optimization across 15 countries. Mohan earns her MBA degree from the University of Cambridge and a master’s degree in Financial Engineering from the New York University.

Tyler Aveni is the Head of International Partnerships for WeBank. Tyler leads strategic international fintech partnerships (banks and non-banks) in developing new business opportunities for WeBank. Prior to joining WeBank, Tyler was country director for SuperCharger FinTech Accelerator in Kuala Lumpur & Hong Kong, the lead China analyst for CGAP (World Bank Group) and an office manager for Planet Finance in Beijing. His former project work involved consulting B2B Fintechs, microfinance companies & online lenders on market entry and expansion strategy across APAC, as well as writing industry reports on China’s digital financial market. Tyler is fluent in Mandarin and holds degrees from Williams College.
SME finance in 2030 will be cheaper, faster, and fundamentally more inclusive.

We expect the world of SME finance to have fundamentally changed by 2030. A significant and transformational shift has already taken place over the last 10 years in which innovative FinTech companies, challenger banks, specialist digital SME lenders, E-commerce players and aggregators like Facebook and Google have entered the $8.1 trillion SME credit market and already offer a range of solutions to meet the diverse financing needs of SMEs of all sizes.

By 2030 we expect much bigger shifts to have taken place including: the continued adoption of digitisation, open banking and a move to open tax which will allow for data to be effectively mined as part of the credit underwriting process and substantially reduce the time and cost to serve SME borrowers, the introduction of digital and AI-backed underwriting for larger more complex loans that today are done manually in most countries; the utilisation of blockchain and smart contracts that drive efficiency in the area of securitisation; to the introduction of crypto currencies as a currency for lending loan repayment allowing for a better alignment of loan products with SME business cycles and the volatility in their cash flows, to a streamlining of the SME credit ecosystem in which non-financial institutions take over the provision of many of the products and services that traditionally were the exclusive domain of financial institutions.

The Reinvention of the Ecosystem for SME Credit

After the financial crisis of 2007-2008, most traditional lenders have been increasingly less willing to shoulder the compliance burdens of lending to SMEs. With the introduction of the Basel III norms, the costs of lending to SMEs also increased since regulated capital requirements for SME lending are disproportionately high compared to the size of loans. We expect that Banks will continue to be subject to strict regulatory norms and will, therefore, continue to move away from direct lending into the smaller end of the SME credit market, while at the same time becoming more aggressive about outsourcing their SME lending activities by providing loans to downstream partner lenders that specialise in this segment like NBFCs in India, NBFIs in Africa and alternative lenders in developed economies that are better equipped to distribute to SMEs.

The medium-sized loan segment in 2030 within SME lending will be dominated by bi-lateral bank-fintech partnerships and multi-lateral managed marketplaces like the one run by CreditEnable, where fintech intermediaries unencumbered by legacy technology systems are able to use AI, sophisticated analytics and automated underwriting processes to improve the customer experience for borrowers, and reduce both the risk involved with lending into this segment and the cost to serve for lenders.

Examples of this shift to partnerships in the medium loan segment are already in play. Retail behemoth Amazon, for example, is already paving the way for such collaborations. Earlier this year, at the beginning of the global pandemic, Amazon announced a partnership with Goldman Sachs to enable credit lines of up to $1 million to all merchants using its platform. Amazon already issues term loans to its partners using a tie-up it has with Bank of America. CreditEnable manages an SME credit marketplace facilitating the rapid distribution of loans to SMEs from lenders that collectively manage a loan portfolio of $170 billion.

E-commerce players like Amazon and Alibaba that have a rapacious appetite to grow their supplier bases, and the ability to underwrite riskier loans because of their immense access to real-time sales data and the lower compliance requirements they face as non-financial institutions will become the dominant providers of loans to smaller SMEs by 2030. At the micro-end, non-traditional actors will continue to innovate. In late 2019, ride-hailing giant, Uber, forayed into financial services with the announcement of Uber Money, that would give its drivers access to a bank account and digital wallet, complete with access to credit.

Technology has already revolutionised financial access for SMEs. Further digitization is going to increase the geographical penetration of credit. Already taking full advantage of these trends, Google and Facebook are now entering the SME loan market. WhatsApp, with an active user base of 400 million people in India, is the latest entrant looking to finance SME loans. With access to millions of data points on SMEs, these tech behemoths will find it easier and faster to underwrite small ticket loans than banks.

And innovative products built off the rails of digital networks
will continue to be developed and proliferate globally. Nascent examples of what to come have already launched in India, where digital payments player InstaMojo introduced “sachet loans” as a means to ease the COVID-19 cash shortage for SMEs. These bite-sized loans, with a tenure up to 14 days, are sanctioned over messages on WhatsApp for SMEs to meet their working capital requirements.

Shopify, and PayPal, among others, are also embracing small-ticket loans to SMEs as a natural part of their business evolution.

**Artificial Intelligence will be the Real Game Changer**

Artificial intelligence, however, will be the real disrupting element in SME lending. Predictive AI which can model for the future, for black swan events like COVID, and identify patterns of opportunity and risk, will be embedded in most fintech offerings and banks will have identified the right use cases and invested heavily in AI. The mass introduction of AI into SME lending holds the greatest chance of democratizing access to credit. Not only does it hold the promise of eliminating inherent biases around gender, minorities, socio-economic classes and geography, AI and machine learning will cut the cost of capital for SMEs even while reducing default risk for lenders, effectively democratizing credit.

Technology will drive organic growth opportunities for this underserviced sector as more SMEs will gravitate towards formal sources of credit, given the increasing choices for borrowing, affordable rates and ease of access to funds.

The outlook in 2030 certainly will look very different from today, but the future is certainly going to be a brighter one in SME finance.

Nadia Sood is the CEO and Founder of CreditEnable. Nadia is a serial entrepreneur, investor and tech enthusiast. She is a champion of small and medium sized businesses, especially those founded by women. Nadia began her career in the Office of UN Secretary Kofi Annan where she learned how to manage complex international issues. This led her into a 20-year career as an investor and changemaker working at the intersection of private investing, and transformative societal and climate change. She was Nestle’s first ever Director of Health and Wellness. In her next role as Executive Vice President of South Asia for SN Power, a renewable energy private equity fund, Nadia helped the fund grow its AUM from 260 million to 1.75 billion in under 5 years while also building a JV with Tata Power in India, and was a Board Director for more than 10 companies in India, Nepal, and Chile. In 2011 she co-founded Impact Investment Partners LLP, the first FCA-authorised emerging markets impact investment firm in the UK, which invested into companies in the healthcare and financial services space that also transform society. Nadia holds a Bachelor’s in Foreign Service from Georgetown University and a Masters in International Affairs from Columbia University. Nadia is a member of the Young Presidents’ Organisation, has been featured in Forbes as a tech entrepreneur to watch, is a regular contributor to international media such as the BBC and is also a published author.
Nagachethan SM: Making the UnFIT to be FIT: Case of India for MSME Financing in 2030

India is the largest democracy in the world and by 2030 would be most likely be the numero uno by population in the world. Ever since its independence, India has been agriculture dependent. In first few five-year plans, soon after the independence the thrust was given to develop industries, however due to excessive protectionism the industries could not reach their efficiencies. Post 1991, India tread the path of open economy by carefully adopting the liberalization measures. However, the focus shifted to the service sector and knowledge-based firms of Information Technology and Services. Again, the manufacturing and small enterprises missed the bus.

The year 2020 has been a year of change in all respects. It has changed the trajectory of the economy of countries across the world and so as well impacted the Indian Economy. The government of India announced series of measures to improve the economy and employment through various schemes and called for “Atma Nirbhar Bharat” which translates to “Self-Dependent India”. This indeed marks an important phase for SME in the country. Being a developing economy, we have further classified the SME into Nano, Micro, Small and Medium Enterprises. Each of the category, be it in the manufacturing or service sector, would be very crucial to generate employment and move the helms of the economy.

SME in India face vehement challenges, which could be broadly be classified into three phases –

1. **Gestational Phase:** In this phase, the SMEs lack Clear Execution plan and have no mentoring, have improper understanding of financial requirements and are strung by operational inefficiencies due to resource constraints.

2. **Survival Phase:** In this phase, SMEs lack direction for scaling up. The SMEs, by this phase would have developed fatigue and need vitamins to flush fresh blood into their systems. This could be both in terms of technology and finance.

3. **Path Breaking and Innovation Phase:** This is the phase where an SME needs to get out of its comfort zone to become a valuable player in the market. This relates to scaling efficiency, product innovation, financial stability, robustness and market penetration.

At every stage and at every problem, finance is the key factor.

Access to Finance is limited due to entrenched problems of Indian SME Industry.

1. No common data thread for transactions
2. Limited transparency in the Financial Account Statements
3. Lack of proper trustable instruments for transactions which are negotiable for credit in the market

In the current essay, we focus on building a robust system of Finance, Information and Technology integrated to provide suitable financial product to the SME. Here in we envisage, by 2030, SME in India would see a transformational change. By 2030, the lending to MSME would revolve around having credit engines which are evolved, efficient and faster due to the advent of machine learning and implementation of GST.

1. Use of Machine Learning to templatize the business models across the generic SMEs. This helps the entrepreneur as DIY (Do it Yourself) kit to build enterprise based on track record of a successful enterprise in another part of the country and pass the gestational phase successfully. At the same time, it provides transparency to the Financier to underwrite and fund the enterprise with a scientifically orchestrated financial product with attractive loan size and interest rate.

2. Effective Blockchain implementation of GST enabled transaction will provide the bankers with cash flow trail. This would enable the working capital for the SME and help scale up their business operations.

3. Our understanding of the nuances of working capital requirements, peak demand for capital and so on for each of the sector would be granular but scientifically understood by the banking platform ecosystem.

Such seminal information flow leads to better understanding of SME sector. Use of digital technology reduces the customer acquisition cost. This reinforces the banking sector to have quality loan books for SME. And in turn, the SME would grow exponentially due to timely financial assistance.
Nagachethan S M is a Fellow, Bharat Inclusion Initiative and has been researching on better access to credit for SMEs. He heads the Housing Loan Business for Navi FinServ Pvt Ltd which is based out of Bengaluru. He has presented International Papers on Housing for the Poor at the International Housing Forum, Bangkok and on Blended Financing at the Asia Pacific Urban Forum, Malaysia. He has keen interest in developing products for the underserved sectors like SME, Rural Enterprises and Low-Income Households. Prior to this, he was Product Head at Vistaar Financial Services Pvt Ltd.
Omar Chedda: Global Online Marketplace Platforms

In 2030, SME financing will be mainly provided by companies which control global online marketplace platforms, which connect merchants and customers, and the corresponding international logistics services.

The dominant players will be the companies which control the data on merchants and customers and the proprietary algorithms on the marketplace platform. Some of these companies include Amazon, Google, Facebook, Apple and Microsoft from the U.S.A., and Alibaba Group, Baidu, and Tencent Holdings from China.

Credit lines will be provided to SMEs through the marketplace platform and incorporate the unbanked and underbanked by allowing online payments and deposits using smart phone digital wallet accounts and QR codes, thereby bypassing the traditional banking system.

By 2030, most SMEs will be able to set up digital storefronts on marketplace platforms that customers can access by scanning a QR code. Customers will then make online payments through their digital wallets which can be topped up through money service providers. Eventually all income and payments can be directed through these platforms using QR codes resulting in a nearly cashless society.

Blockchain technology will ensure the authenticity and traceability of online transactions minimizing fraud. These marketplace platforms today are seeking to expand to serve as platforms for most if not all business transactions, expanding online transactions to areas not presently covered, such as mortgage services, and to serve as the platform through which loans are made, received and repaid, using digital wallets. This expansion is necessary in order to achieve the required scale for profitability. As a result, the firms which run these platforms will provide low interest rate loans without collateral requirements for SMEs and incur losses on some of these loans because the main objective is to increase the number of merchants and customers on the platform. Lending to merchants will spur growth of the platform.

Many SMEs are unable to access financing due to insufficient credit history or low credit scores. Marketplace platforms will utilize big data analytical tools and Artificial Intelligence to enable better scoring of borrowers based on a range of factors relevant to each borrower, such as potential market, overall financial behavior, and social stability. Personalized underwriting algorithms will result in improved risk assessment and lower interest rates. Machine learning will study past trends and predict future creditworthiness.

It is likely that small banks and community banks will be acquired and incorporated into this new system by the firms which control these online marketplace platforms. Large banks and other institutional investors will invest in and provide capital for these marketplace platforms.

The need for bank branches and customer service agents for brick and mortar banks will be greatly reduced. Customer service interactions will largely be outsourced by the marketplace platforms to Business Process Outsourcing operations, which will utilize a combination of virtual agents driven by natural language processing Artificial Intelligence with some human supervisors.

The control of data and proprietary algorithms on the marketplace platform will create high barriers to entry, making it very difficult for new platforms to challenge the incumbent. Therefore, government regulation will be critical to ensure no abuse of power takes place.

Existing banking regulations will need to be overhauled in order to adapt to the changing environment and not stifle the growth of lending to SMEs through the emerging marketplace platform while protecting the interests of all stakeholders with regard to fair and equitable treatment.

This process of transformation of the global SME financing landscape will not happen evenly or at the same pace in every country and region. The U.S.A. and China will take the lead, followed by the UK, EU, India and Latin America. Countries which take the lead in this process of transformation will gain a competitive advantage which will force global adoption of the marketplace platforms.
In developing countries, there are entrepreneurs who have started to provide online marketplace platforms to connect SMEs and customers. However, these small players do not have the resources to challenge the dominant players in the U.S. and China. Therefore, it is likely that they will enter into licensing arrangements with the globally dominant players in order to build local platforms with international networks.

This augurs well for the future of SME financing, and will greatly reduce the financing gap. However, there is the risk of abuse of market dominance by the major global firms which control the data and technology which will require global regulation and monitoring through organisations such as the World Trade Organisation.

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Omotolani Ketiku: Disruption in Data Availability and Behavioral Mechanism

Where we are today? The world is digitizing because the changing world seeks low friction and immediacy. The SME finance space is not left out on this, the loan origination process to disbursement is being digitized by many traditional lenders like banks and the disruptive advent of the FinTechs. From 2013-2014 equity investments into FinTech companies has quadrupled from $4 billion to more than $12 billion, FinTechs embody a new set of products tailored to the needs of small businesses. Technology is taking today and improved on to better serve the SMEs. In the midst of all these developments, there are still gaps that will be improved upon in the nearest future.

It is important that there is a shift on the behavioral mechanism for SME finance, let it be a process where the lender as a part of your life helps you to change your behavior to be able to access finance as an SME.

SME finance of the future will not be about just iterating the existing principles and methodologies of lending into technology. Most of the current technology developments we have in finance today are about digitizing the current traditional lending processes in place; the pesky processes from loan origination to disbursement are still remain but are digitized.

There will be a need to redesign the behavioral framework around SME financing to no longer be about just a product framework. Firstly, there will be a need to be a part of our MSMEs world closely that from just a mobile app we and with the help of AI we can monitor the SMEs Credit behavior to learn and have them fully involved in a credit worthy lifestyle and most importantly providing the right behavioral triggers to correct this from the moment they are on-boarded as customers.

Artificial Intelligence will give us that platform where financial advisory will be as easy as a voice prompt where a borrower can say “Alexa! Can I access 20 million naira from my Access Bank account to pay my suppliers” and there is an immediate response, this of course will require a wealth of external data that will be readily available to make instant decisions. The more data available the more advice and access to finance that can be provided, the wealth of data required will be such that will require AI to be able to process.

In future, secured lending which has been a constraint to SMEs will be more apparent as a legacy and not because it is the safest means to lend, the adequacy of the wealth of data and behavioral pattern that will be readily available will begin to provide the level of comforts required to lend to SMEs.

Access to SME finance in 2030 will start to extend beyond the service local lenders and financial institutions will provide, the risk appetite to finance SMEs will grow and there will be more access to investors globally. From the comfort of our homes there will be a linkage through technology to connect foreign investors/lenders to local SMEs.

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Mariya Yesseleva-Pionka, PhD: Blockchain for SME Finance and the Policy Environment

The availability of and easy access to external debt finance for small and medium enterprises (SMEs) has been a subject of close research interest for academics, industry practitioners and policymakers around the globe. By 2030, decentralised permissioned Blockchain Network System (BNS) with vast and fast information processing capabilities will open up new funding opportunities for SMEs. The future success of the BNS will depend on the public-private collaborations and most importantly, adaptable, transparent and efficient policy environment. For hundreds of millions of SMEs around the world and for over 2.3 million SMEs in Australia, this could mean receiving access to necessary debt finance within minutes.

Introduction

This paper is following a recommendation introduced in recent 2020 MSMEs report published by the International Council for Small Business for the United Nations and the rest of the world. “A recommendation for the Australian government to further explore the possibility of creating decentralised permissioned Blockchain Network System for SMEs in partnership with significant participants (e.g. financial institutions, taxation office, land and real estate registries, credit bureaus, alternative lenders among others) with the data/information used for assessing SMEs’ creditworthiness. Creation of the SME Blockchain Network allows for the appropriate records to be stored in each SME’s Business Digital Footprint (BDF) Account, which is verified by algorithms on the Blockchain Network. Future research directions should concentrate on creating new SME credit models in light of having SME Blockchain Network with vast information processing capabilities” (Yesseleva-Pionka, 2020, p. 90).

Data privacy and protection is of utmost importance for all the future participants in the Blockchain Network System. From the government perspective, it is essential to improve policies surrounding data access and usage, privacy, accountability and data auditing of all the stakeholders in the BNS. Having multiple stakeholders in the BNS is necessary to maintain the decentralised status of the permissioned blockchain network. At present, there is a significant concern about using the BNS or Distributed Ledger Technology due to various legal uncertainties. Ability to communicate and most importantly exchange information/data via BNS is set to be a revolutionary solution to the information asymmetry surrounding the SMEs, giving them a more significant financial inclusion, more accessible and faster access to funding. The latest OECD (2019) report confirms that there are more than 200 ongoing Blockchain projects in the government sectors around the world.

Industry 4.0

SMEs are currently exposed to the 4th Industrial Revolution, which is characterised by the introduction of numerous payment platforms, digital currencies, applications for financial services and products, digital banks, machine learning, advancements in Application Programming Interfaces (APIs) which directly have an impact on the way business operations are conducted (SIFT,2020). Thus, it is imperative to analyse the effect of digital disruption on servicing SMEs funding needs. The open banking regime, also known as consumer data right (CDR) in Australia, is giving SME owner-managers control over sharing their information/data for specific purposes such as new loan applications (Australian Competition & Consumer Commission (ACCC), 2019). World of Open Banking, API and shared data can expose both providers and users of funds to a wide range of fully digital financing instruments/products” (Yesseleva-Pionka, 2019, p. 9).

The introduction of the blockchain data management can potentially lead to the introduction of a single digital record for every SME (known as Business Digital Footprint Account) giving them an opportunity of being in charge of their proprietary data, which comes from verified sources and could be supplied to external lenders to maximise their chances and speed of accessing debt financing (Yesseleva-Pionka, 2020). At the time of writing this paper, COVID-19 is rapidly developing across the world, which has accelerated the necessity of having reliable digital solutions for conducting business operations and accessing funding (SIFT, 2020). By 2030, it is recommended for the BNS to be a fully functioning data exchange network for SMEs in Australia and the rest of the world.
Dr Mariya Yesseleva-Pionka completed a Bachelor of Business Studies and Doctor of Philosophy, PhD (Finance) degrees at Charles Sturt University earned a Master of Business in Finance degree from the University of Technology Sydney. She also completed The Management Development Program for senior academics at Harvard Graduate School of Education. Dr Yesseleva-Pionka held teaching and senior academic management positions in Central Asia (Kazakhstan) and Australia. Prior to joining TOP Education Group (Australian National Institute of Management and Commerce), Dr Yesseleva-Pionka held academic positions at the following universities KIMEP University (Kazakhstan) University of Sydney (Australia), University of Technology Sydney (UTS), Charles Sturt University (Australia), University of New England (Australia), Victoria University (Australia) and Charles Darwin University (Australia). She won teaching awards at the University of Sydney Business School and Top Education Institute and was recognised as TOP 20 at the UTS Business School. Dr Yesseleva-Pionka specialised in general investments, personal and corporate superannuation investments while working for Westpac Banking Corporation and BT Financial Group. Dr Yesseleva-Pionka was invited to join The Housing Connection Board as a Treasurer and Board Member from November 2019. Dr Yesseleva-Pionka’s research interests include entrepreneurial finance, traditional and alternative ways to finance small and medium enterprises (SMEs), corporate finance, policies for the small business sector, innovation and SMEs, FinTechs and Blockchain.
Matthew Saal: The Future of SME Finance is Invisible

That isn’t because we can’t envision the future, but because the most useful finance for small businesses is finance that just happens, without being seen.

Small businesses exist because their founders had a product to make, a service to provide, or simply needed to earn a living. No small business exists because the founder wanted to take out an equipment loan or developed a hankering for working capital. Those financing needs emerge in the course of conducting business, and may be critical to building and growing that business, but are not a motivating interest for the entrepreneur.

The winning approaches to SME finance will be those that allow businesses to focus on their core activities. Finance is increasingly embedded in other activities and can respond to specific needs. A compelling vision of the future of finance is the acceleration of embedded, contextualized finance, combined with automation (enabled by data linkages to other business processes, IOT, AI, smart contracts and other technologies) that anticipates the need for financing and provides it from the optimal mix of sources.

Consider the stages of development of another kind of liquidity - tap water. The first innovation was to have water available on tap – turn the faucet, it comes on. Then hot water was added – but separate from cold. Great for a bath, but not a shower. Then came the mixing tap, putting hot and cold together. Subject to careful adjustment, the shower got better. Further innovation (ca 1909) resulted in thermostatic mixing valves, which provide an optimally mixed refreshing flow. Add motion sensors, and the shower can turn itself on.

A bank overdraft is essentially finance on tap. The product is centuries old, but not every small business has been connected to the mains, and it can run way too cold. Technology allows almost every business to connect to the financial mains. Internet banking and mobile money place a virtual bank branch in the phone in any business owner’s pocket. Data-driven lending algorithms allow liquidity to flow through those pipes. Additional financial connections are being made alongside digitization of supply chains and sales activities. Digital order and inventory systems allow a distributor to see inventory levels and order patterns and offer financing. Sales via e-commerce platforms and acceptance of electronic payments at the retail level provide data on cash flows and are leveraged to provide credit. The contextualization of finance reduces risk, moderating the cost, and increases availability, convenience, and ease of use. But this more readily available liquidity still requires the business owner to carefully balance the mix, lest it scald. Intelligent finance will remove that requirement. Placing an order form an FMCG distributor? What goods prices and credit terms does the distributor offer? For this order, choose a distributor with a higher price that offers the option to pay later, or a lower price for immediate payment, and draw on a bank balance or overdraft line instead. Working capital running short? The system can evaluate outstanding invoices, determine which could be factored or are part of a supplier’s prepayment program, and whether the discount required would be more costly than tapping distributor finance or a bank Line.

Algorithms would execute the combination of transactions needed to provide a steady flow of working capital at the optimum mix, dynamically adjusting for market conditions and exposure preferences. The business owner could choose whether to approve each decision or leave it on autopilot with daily or weekly reporting. This is the extension of robo-advice from consumer finance to small business treasury management. The SME robo-treasurer will optimize across funding sources. It could be forward-looking – making sure to build a track record with a new business partner or finance provider, for example, to qualify for better pricing or credit terms in future. Treasury management once available only to corporates with significant finance operations will be placed at the disposal of an SME whose owner solo pilots all the seven Cs: CEO/COO/CFO/CTO/CIO/CMO/CCBW1. That layer of technology will take SMEs beyond the current wave of contextualized finance to the age of invisible of finance.

Who will perform this function for an SME? That depends on size, business complexity, and operations. Different types of providers have a nexus of small business relationships and could offer such a service. For small merchants selling via e-commerce, a marketplace platform that is providing inventory and logistics management and payments collection could be the logical provider. We already see such platforms providing financing products such as working capital for inventory and merchant cash advances. For other SMEs, a digitally enabled bank or microfinance institution will be best positioned. Banks, after all, are one of the oldest platform business models, offering multiple products against a core ledger system. Those

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1 Chief Cook and Bottle Washer
that are adept at customer facing technology and willing to offer not only their own products but those of a range of providers, could leverage their connectivity to SMEs, payments, and credit information and administration systems to provide a compelling value proposition. Telcos have connectivity and are already running rudimentary accounts systems for small businesses that use mobile money. These could develop into value-added data services, in partnership with finance providers. The next generation of cloud-based SME accounting systems will incorporate these features for more formalized SMEs, and for some with complex needs, stand-alone optimization systems will connect to the accounting system and multiple finance providers.

Finance will not be gone. But its impact will be felt without its processes being seen. No business wants to be invisible – least of all a bank. But by becoming invisible in this way the finance provider will become indispensable. The day-to-day invisibility also carries a responsibility to deal fairly and transparently.

When finance adapts to business needs and disappears into the background, small business owners have more time and flexibility to grow their businesses, offer new products, serve their customers, and follow the passions that led them to create those businesses in the first place.
Matteo Rizzi: SME Financing Ecosystem in 2030: towards a full synergic collaboration ecosystem

We believe the shift to close the gap in SME financing has already started and the positive trend is only upward moving. What do we see when looking at the SMEs credit ecosystem? A diverse reality where a fundamental role is played, of course, by traditional lenders. But in countries with well-established FinTech ecosystems such as the UK, The Netherlands and Switzerland, we are seeing these new FinTech players come in and cover the gap being left by traditional lenders. Now, that does not mean these FinTech players have the ability or the desire, to tackle this issue on their own. To start with they need to be able to build the trust and that is not often placed on newcomers. Our research shows that the players covering the gaps in the mentioned markets have at least 3-years of activity under their belt and have oftentimes developed partnerships with well-established players.

Therefore, by no means will the FinTechs and traditional financial institutions be permanent competitors. By leveraging each other’s capabilities, they both stand to gain.

By 2030, we expect to see the SMEs credit ecosystem to have substantially developed and therefore the gap bridged. The ecosystem we see possible is one still led by traditional lenders, yet substantially supported by an array of players, ranging but not limited to alternative lending, data intelligence, security, neobank, accounting/reporting and infrastructure/platform companies.

The data intelligence cluster of companies is probably the most interesting tech-wise, encompassing various types of business, they mostly focus on putting great amounts of data to use in the lenders interest. Therefore, solving the commonplace complaint that there is not enough data on the SMEs to deem them creditworthy. Despite the ubiquitous belief that there is the need to explore alternative uses to the massive amounts of data being captured, these guys are actually making it work, and to good use. This feat was virtually non-existent until a few years ago and the possibilities will only grow exponentially with time.

The reporting and accounting functions are often times the same in SMEs and their importance is often neglected, not out of choice but of lack of time and resources. At the same time the relevance of this function to make financing work is paramount and this is where the solutions in this cluster have found their niche. On one hand they smooth things out for SMEs while on the other they create an opportunity for lenders, in some cases themselves, to tap into an underserved market.

The traditional banking way to SMEs lending based its process via non-digital channels. The credit processes are often slow and not suitable for small-medium businesses, who many times require loans on short notice due to cashflow fluctuations. Neobanks are now offering advanced matching engines to leverage new models of risk scoring based on social and big data, employ a fully efficient digital process and a fast and almost automatic underwriting process, which is crucial for SMEs.

Alternative finance represents a different method from the traditional financing provided by banks. First of all, the products offered by banks do not respond to the requests of companies and the waiting times of credit institutions are longer compared to the speed of alternative finance. Innovative startups and SMEs constantly need liquidity to boost their growth, but credit institutions are not equipped to provide financing at competitive costs and with the speed necessary to meet their needs. Alternative financing can take place on an equity or debt basis. This portion of the ecosystem consists of very different players, business models and lending structures.

What unifies them is the value proposition of being an alternative to traditional loans, beating them either on speed, terms, user-friendliness or all of the three.

The security cluster, bringing together cybersecurity, fraud detection, ID Management, KYC and Communication security represents an area of the ecosystem that is extremely developed in the consumer space as of today, but less so in the direction of SMEs. We are seeing the application of various use cases also to the segment but given the lag of development of SME credit in general we expect them to take a more essential role in the upcoming years.

The introduction of the PSD2 has brought about a new set of rules to allow third party operators to access certain information relating to customers and their operations. The regulatory changes imply the opening of the banking sector which allow new operators to enter the market with digital services and
limited IT investments. These infrastructure solutions and platforms of different types have an enabling role in common: from streamlining processes to assist in creating new ones. In particular, companies are experiencing the marketplace model in which customers and business can use a single interface to access products and services offered by a multitude of operators. This platform model offers customers a complete series of services, designed with a holistic approach to meet their needs.

All in all, the SME segment has been touched only recently by the wave of changes in the financial sector as a whole but given the importance of SMEs for any economy, and for the European especially, the consequences will be pivotal. The acceleration is evident, and the market opportunity is vast, as is the chance for the sector to become more efficient and competitive. For this reason, we deem fundamental the role of entrepreneurs and policymakers alike in a genuine ecosystem effort that can create strong foundations for future developments.

Matteo is an unconventional entrepreneur and a book author with two decades of experience in Financial Services. For three years in a row (2014–2016), Financial News has nominated Matteo as one of the “40 most influential FinTech executives in Europe”. In 2008 he co-founded InnoTribe, the innovation arm of SWIFT, where Matteo worked for 13 years. He also launched the InnoTribe Startup Challenge, the first global deal flow of its kind. He left SWIFT in 2013.
PRODUCT
INNOVATION
At present, the European SME sector is heavily reliant on the formal banking sector for external financing. A recent ECB survey (ECB (2019), “Survey on the Access to Finance of Enterprises in the euro area April to September 2019” European Central Bank, Frankfurt) showed that over 50% of SMEs use banks as the main lending source (either through direct loans or credit lines), while other studies place the figure closer to 70% (Boata, Ana, Marc Livinec, Georges Dib, Chris-Emmanuel Ble (2019), “European SMEs: Filling the bank financing gap’ Economic research, Euler Hermes). What’s more, given the severe lack of additional funding sources (equity financing, venture capital, etc.) the banking sector’s dominance means SMEs are limited in their choices and must work with increasingly risk-averse and stringent banking loan requirements. The banking sector’s reluctance to lend stems from a decade in which an unfavourable macroeconomic environment (and, in some cases, their own mistakes) lead to conservative lending practices, to ensure that bank balance sheets would not return to the immediate post-crisis era (characterised by high non-performing loan ratios, unsustainable leverage ratios, and depressed return-to-asset ratios). Moreover, regulatory changes in the banking sector pushed up capital requirements and, with the low interest environment, shifted their exposure to sovereign debt securities relative to total assets. All of this created a cocktail of elements in which banks slowed lending to SMEs.

Despite a historically low interest rate environment and with a gradual easing of access to finance pressure, SMEs began to cite numerous issues with the banks’ dominance. Firstly, SMEs often report that high financing costs of loans imposed by banks (such as fees, service charges, etc.) dampened enthusiasm and access to bank financing. In some countries, such as Greece and Portugal, high interest rates of SME loans continue to detraction demand for bank loans. Moreover, high collateral requirements for young SMEs make the prospect of a bank loan look daunting. Significant information asymmetries between banks and SMEs regarding financing solutions exacerbate these issues: small businesses are sometimes unaware of the best funding solutions available to them, including public support programmes. As a result, even when SMEs can access funding, this may not be under ideal conditions from their perspective.

Yet banks are being challenged by the emerging Fintech arena which is both putting forward innovative solutions coming in various sizes and shapes and promising to solve the most pressing problems faced by both banks and SMEs. Certainly, many of the Fintech solutions that have emerged in recent years seem to have the capacity to dramatically reduce information asymmetries. They can help banks collect and aggregate more and better data on SMEs, easing risk management, as well as financing modelling, and better assessments of creditworthiness. Moreover, technological solutions can reduce the high processing costs of SME loans; if passed on, they could drastically reduce the cost of SME financing (mainly through reduced fees). SMEs that have historically been perceived as riskier (often in vulnerable groups) may also experience lower rejection rates and less burdensome and punishing funding requirements, as new tech offers more in-depth screening and business analysis, which can reduce banks’ lending anxieties. However, we must recognise that the traditional banking sector dominance is certainly not going anywhere soon – there is at present still a strong need and demand for in-person, client-facing relationships. And while Fintech offers disruptive technological solutions for SME funding, it often lacks the operational knowledge, client relationships, and experience in navigating the regulatory environment that the traditional banking sector has mastered. At the same time, the traditional, risk-averse and (at times) slow-moving banks are in constant need to modernise their tech infrastructure. Slowly, a merger of two may appear on the horizon and ultimately transform the European banking sector’s conventional models into one which is increasingly tech savvy and more responsive. Most banks in Europe are already in the process of analysing Fintech potential applications in their operations, with some having begun pilot projects/sector specific applications. A question that remains open is whether the Fintech will merge with existing banks; certainly, this could help capitalise on banks’ already vast lending infrastructure. Equally, we may see the emergence of a new and integrated SME financing sector, in which banks and fintech platforms compete on an equal footing and expand the range of opportunities available to potential borrowers. In
both cases, the transformation may be slow and cumbersome: coordination issues may exist for years to come, the regulatory environments within which Fintech operates are evolving, and new technologies may encounter potential hiccups as they are developed (such as algorithms mistakenly rejecting loans due to intangible, non-quantifiable parameters).

At the Council of Europe Development Bank, we are working to follow the ever-changing SME finance environment and catalyse its potential to boost social inclusion. While the future remains uncertain, we do recognise that traditional banking will have to incorporate new technological solutions if they want to remain relevant for SME finance and ultimately better serve European peoples and societies. Younger businesses are already incorporating technology with ease and are increasingly comfortable taking full advantage of existing online banking services (provided by both old banks and new tech platforms). Within the next decade, we expect to see continued growth of Fintech platforms and hope to continue to channel the potential of new financing choices for greater social inclusion and welfare for all.

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Merve Akinci is a technical advisor and project economist for the SME sector at the Council of Europe Development Bank. She has more than 25 years of experience in the areas of corporate, commercial, retail and development banking with a strong focus on business lending. She started her career as a loan officer and subsequently held managerial positions at commercial and development banks. Before joining CEB in 2015, she also worked as a bank advisor and consultant in donor-funded projects in developing countries, representing EBRD, EIB, KfW and IFC. Ms Akinci possesses hands-on experience on MSME lending, client relations, credit appraisal, project evaluation, loan monitoring, impact measurement and financial sector due diligence. She also has sector-specific information spanning diverse industries acquired through her career.
Anders la Cour: 20/20 hindsight to boost SME finance

A lot can change in ten years. Indeed, since 2010 there have been some dramatic and significant changes to our lives and how we do business. But in terms of SME finance provision, the pace of change has not kept up. While the size and number of the markets in which they trade and have the potential to trade, have increased enormously, SMEs still struggle to obtain the finance that will help them meet their potential. SMEs are forced to jump through multiple hoops and wait for weeks, if not months, to obtain the finance they need to grow, expand or even just to stock the shelves before the busy season.

The past few years have seen an influx of FinTechs offering fast and low-cost lending for consumers, but the number serving SMEs has been extremely low. Post-recession, banks are still nervous of lending to smaller businesses due to their perceived higher-risk status. However, but the latest tech, AI and machine learning are already beginning to open up the options available, and financial institutions can work together in an ecosystem model to offer SMEs the flexible solutions they need. SME lending is at a turning point, and by 2030 we should see a new normal. We should be looking back at how much has changed within SME lending in the past ten years, rather than how little has changed.

The first and most important step towards frictionless, flexible SME finance, is digitalisation. The digital landscape is fast paced, it is ever-changing and highly competitive. Merchants in this space need access to payment and financing solutions that can keep up, to support and boost their business rather than hindering and limiting it.

Thanks to digitalisation consumers can now purchase goods from sellers anywhere in the world, and they expect to receive the goods or services quickly. For an SME to keep up with the rest of the market and meet customer demand and high expectations, it needs the ability to restock rapidly and expand to new markets and territories. That requires easy and fast access to affordable working capital. To deliver that, financial services providers need to start working together more closely. There is a real need to collaborate to deliver SME finance solutions which help rather than hinder SME growth.

Just like in almost every other industry, Banks and Payments businesses have been planning and implementing increased digitalisation for some years. Financial institutions of all types have increasingly sought the help of tech companies to automate lending and treasury management via APIs, as well as speeding up and streamlining cross border payments. However, as our recent series of white papers explains, the coronavirus crisis and resulting restrictions have accelerated the digitalisation plans of financial institutions.

These white papers, in a series titled ‘Ready for the re-build? Re-thinking the value of digital infrastructure’, share the findings of an industry study looking at changing attitudes to digitalisation, and the impact of COVID-19.

Of the Banks, FinTechs and Payments businesses we spoke to, keeping up with the changing demands of customers came second only to the threat presented by changing regulations. The survey revealed that around 90% of financial institutions are building technology design and architecture into their business planning, and all agreed that there is a current business benefit or future opportunity to be had from technology and joining forces.

In a separate study in 2020 we looked at how SME access to payments and financing solutions has changed in the past two years, and whether the industry is ready for the new expanded digital marketplace.

The findings were published in a white paper titled ‘Mind the Gap: How payments providers can fill a finance gap for online merchants’. The study revealed the continuing challenge faced by smaller businesses and the gap in provision of affordable and accessible business funding. It also uncovered the opportunity for payment providers to step in, fill the gap and help boost online merchants whilst also increasing their own revenue.

We found that 64.6% of online merchants have accessed business finance in the past two years, using a variety of services offered by their current banking partners. Around half use short-term loans (47.8%), overdrafts (49.1%), finance agreements for specific purposes (48.8%).

In terms of timescales to obtain finance, merchants faced a wide range of waiting times, potentially having a serious impact on their ability to repair equipment, restock or increase headcount before a peak rush. Most commonly, merchants reported a wait for funds of between three and four weeks.
(24.6%), followed by one to two months (21.7%) and one to two weeks (18.8%). For 6% of all respondents the wait was between five and six months.

Small companies are finding it more of a challenge to cover business costs and payroll without external financing and a lack of access to additional funding would have a direct impact on fortunes, with a quarter of firms across Europe saying they would have to cut headcount and/or that the business would ultimately fail.

Now is the time for the industry to step up. The financial ecosystem model remains strong. Banks or Payments businesses working in silo have limited positive impact as resources are spread too thin. But working together within a financial ecosystem, Banks and Payments businesses that focus their resources on developing and delivering solutions in the areas in which they are strongest, working with other providers to build a suite of tailored and high quality services, can deliver better solutions to those SMEs who need it.

Today’s financial institutions – from traditional Banks to Payment businesses and FinTechs - have a unique opportunity. They can step in to help online merchants bounce-back, succeed and prosper in ways they could not imagine a few short months ago when the world was a different place.
Atul Narayan
Save: What SME finance will look like in 2030?

“Life is never fair & perhaps it’s a good thing for most of us that it is not” – Oscar Wilde

Who would know this better than SME? Right from frowning banks, nitpicking authorities, bullying large buyers, vendors, labour issues to an occasional demotivating spouse. The struggle is endless and so is it a surprise that the mortality rate is high in SMEs?

The current Corona pandemic is playing havoc across the globe to the extent that we may have 2 time zones, BC (Before Corona) and AC (After Corona). The damage to economy and more particularly to SME is alarming. Large businesses are more like adults having better immunity than infant SMEs. With businesses shut, the SME income has become nil, but not the expenses.

So, with Corona pandemic worsening economies, is there not a silver lining to the cloud? Yes. The Corona adversity is expected to make the world and SME wiser, more mature, benefiting all stakeholders in long run. To illustrate - Corona led to lockdowns across geographies and for the first time ‘Distance’ became a major risk. Hitherto, under the guise of globalization, cheap labour and other resources in remote location were exploited to boost the profitability. In AC period, possibly there will be decentralization catering to local demands than global market. This better SME opportunities.

Money or vitamin M is vital for any business. As per joint report (2017) by International Finance Corporation (IFC) and SME Finance Forum, MSME have an unmet financing need of $5.2 trillion every year. If we want to change this, we need to revise the structure and build a new process; otherwise, we would be condemned to repeat the history.

To solve a problem, one has to understand the problem first. I was a SME financing banker for long. Besides my formal interactions then, I have been talking informally with a large number of SME (including failed businesses) stakeholders for about 3 decades.

I prefer informal chats over formal meetings, since in formal meetings people don’t open up but try to be politically correct. Conversely, people speak their heart out in informal, casual conversations which are not being recorded. Well, the language may not be strictly parliamentary; there may be a tendency to exaggerate, still casual chats provide better insights to ground realities. Here are my observations on ‘What ails SME?’ through my interactions in India, but likely to be relevant to other countries also and especially developing countries.

- Many SMEs die young. Many failed SME promoters told me that the failure was more due to non-availability of liquidity than profits
- Despite the agreed credit terms, there are payment delays from large buyers
- Lack of cooperation from banks forcing SME to borrow at high costs from others
- Low bargaining power with both suppliers and buyers
- Harassment by local government officials, purchase departments of large buyers
- Overdependence on single product, buyer - concentration risk
- Greedy consultants pushing the entrepreneurs to short term gains at the cost of long-term losses
- Weak R&D budget
- One man army. No second line of command.
- Weak MIS, record keeping
- Weak interpersonal relationships
- By and large typical SME entrepreneurs are ambitious, courageous, dreamers with sound product knowledge but weak in finance, budgeting & planning, delegation, succession planning. Even after understanding the ground realities, building a solution is never easy and not even possible for an individual. With likeminded stakeholders coming together under the leadership of IFC, SME Finance Forum, it is very much possible. The leadership may involve partners like governments, policymakers, regulators, SME associations, lenders like Banks, NBFCs, FinTechs, P2P platforms etc.

The way forward, therefore, can be

1. In the after Corona era, instead of centralized huge production facilities at remote locations, local production bases assuring uninterrupted supplies
are likely to be preferred. This can open a lot of new possibilities for SMEs.

2. Preparing SME entrepreneurs for challenges – from rough diamonds in mines to polished diamonds showcasing multiplied value. Conducting trainings to SME entrepreneurs on ‘Basic finance awareness and Soft skill building’ to cultivate better disciplined successful SMEs.

3. With ‘cash being king’ for SME, the banks need to move away from conventional credit assessments to cashflow based flexible tailor-made financing. The cash gaps should become more important than ratios. Technology would help in better operations and having a handle over the cashflows.

4. Experience is power and technology rules the finance. Traditional banks have access to low cost deposits, are strong through distilled credit experiences of ages but have legacy issues and weak in technology adoption.

FinTechs are strong in technology but not seen a few credit cycles and don’t have access to low cost deposits. Banks and FinTechs collaborative approach in SME financing would explore past payment track records (like utility bills), technology trends in Artificial Intelligence, Machine Learning and predictive analytics for faster turnaround time, lower operating costs, monitoring diversion of funds and lesser defaults.

5. Policymakers, authorities framing simplified compliance procedures would help the SMEs in their day-to-day affairs.

6. Establishing Credit Insurance companies for insuring SME’s debts adding to the lenders’ comfort.

7. Expeditious legal recovery processes enabling lenders to take more risks.

8. Lowering of risk, operations cost, defaults and faster recovery enabling lenders to reduce risk premiums and SMEs getting easy loans at lower costs.

To sum up, with major stakeholders coming together for common good, SME growth would get a boost. Quantifying the performance in 2030 is difficult as a lot will depend on how different stakeholders respond. Yet, there is no denying that the estimated gap in SME financing would be considerably lower in 2030. With more stress on essential goods & services locally, hopefully, we may move from ‘Greed is good’ by Wall Street wolves to ‘The world has enough for everyone’s need, but not enough for everyone’s greed’ by Mahatma Gandhi.

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Current Profile: After signing off my career as C.E.O. of a small bank, I have been functioning as a Freelance Consultant and Trainer; especially in the area of Credit Risk. Executive Brief: Successful leadership experience in ‘Banking & Finance’ holding positions of significant responsibility (from Probationary Officer to CEO) with 6 different banks in Public, Private and Co-operative Sector.

Summary of Skills: Credit Risk Management, Business Process Reengineering (BPR), Business Development, Training Soft Skills: Leadership, Ability to simplify, Problem solving approach Academic & Professional Qualifications: Bachelor of Science, Bachelor of Law, Certified Associate of Indian Institute of Bankers, master’s in financial management, Diploma in Business Finance Career Graph (from latest to earliest)

• Chief Executive Officer with Vima Kamgar Bank in 2015-2016
• General Manager – Credit with Greater Bank in 2014-2015
• Executive Assistant to Group Chairman with Panoramic Group in 2013-2014
• Head Professional Services with IDBI Intech Ltd. in 2011-2013
• Vice President and Head Credit Analysis & Monitoring with DCB Bank in 2003-2011
• Chief Manager with ICICI Bank in 1994-2003
• Deputy Manager with State Bank of India in 1987-1994
• Income Tax Inspector with Income Tax Department in 1985-1987
• Probationary Officer with Bank of Baroda in 1984-1985
Financial Institutions are understandably poor at assessing the risks of SMEs, and entrepreneurs, in general, do not assess their own capital needs (or risks, for that matter) accurately.

Entrepreneurs don’t know how much capital they need, and banks don’t know how much capital to provide, or how to accurately price the risk associated with SMEs. This is a fact often downplayed in the world of SME finance by all parties but the capital-starved entrepreneurs themselves. This inability to assess and price risk is the fundamental reason why traditional banks long ago vacated the practice of lending to early stage SMEs without substantive personal guarantees. This PG requirement creates a material gap between those that have wealth to place at risk, such as the equity value of a home, and those that do not.

This gap leads to the all-too-common practice of capital tapping required to get new ventures off the ground. Even after three years of operating history, SMEs often have few lending options at the ready.

SME outcomes are highly volatile
This is not entirely the fault of bankers. For SMEs inhabit complex systems fraught with danger. The few narrow pathways to success are riddled with commercial, operational and human resource landmines. On top of this, decisions involving capital sourcing and allocation can be fatal. Failure to capitalize an SME properly can mean death to the enterprise. Often, over-capitalization can lead to the same poor outcome, albeit often over a longer time horizon. Getting capital allocation precisely right can influence the outcome of an SME.

At the same time, the old adage is true that wise investors must invest in lines not dots. And yet the ability -- never mind willingness -- of the common entrepreneur to provide regular, coherent data to their prospective capital providers is miserable at best. The optimal solution, from the capital providers’ point of view, will be one that is far more than a collection of dots making a line, but a multidimensional, organic edifice composed of millions of datapoints continuously collected over time.

The impact of capital allocation on SME outcomes is extremely difficult to measure

Studying SME outcomes is subject to observer effects, whereby the observer impacts the outcome of the experiment. More fundamentally, it is impossible to A/B test the impact of any change in variables on SME outcomes. However, with the advent of open banking, nearly-ubiquitous APIs, and hyperconnected systems, we will soon have access to oceans of data never before seen for multitudes of discrete SMEs. It is possible that this sea of data will allow us to create multivariate images of SMEs and better understand their vectors of success.

The central nervous system for any SME is its accounting software
Accounting software, theoretically at least, is the brain stem of every enterprise. Until recently, accounting systems have been highly disconnected from other data sources, such as sales and marketing automation suites, e-commerce systems, human resources systems, payments and POS systems, and beyond. Now, as SMEs and their service providers leap 5-15 years into the future as a result of the global health pandemic known as Covid-19, the opportunity to massively connect these disparate systems leaped forward as well. SME systems -- sales, marketing, operations, fulfillment, finance -- are moving to the cloud faster than ever before, presenting new and promising opportunities for integration.

AI applied to massively interconnected SME data will lead to a new era of capital access and efficiency.
For such advancements to take root, massively interconnected systems are necessary. E-commerce sites (e.g., Amazon), payment data warehouses (e.g., Stripe), marketing platforms (e.g., Hubspot), CRM systems (e.g., Salesforce.com), cloud-based accounting software providers (e.g., Xero), payroll systems (e.g., Gusto), sentiment analysis (e.g., Socialbakers), expense management software (e.g., Expensify), business banking (e.g., azlo), capital connection agencies (e.g., lendio), capital providers (e.g., American Express, the SBA, and even traditional community banks) and more must be brought together through a Grand Central Station of data pipes. Naturally, compute power and AI capabilities on the scale of Microsoft Azure, AWS, Google AI and IBM Watson will be essential.

Oceans of data well analyzed can lead to a new dawn in forecasting, coaching... and outcomes
Permissioned datasets that capture the entirety of a company’s activities can lead to vastly better understanding of the health of an SME through the application of machine learning and artificial intelligence. This new comprehension will enhance our ability to analyze the risk of SMEs at the earliest stages of formation and forecast their likelihood of success. With improved forecasting will come efficiently allocated and well-priced capital, which alone will increase the likelihood of success for SMEs. Further, it is possible that as a result of the above advancements, business analysts will be materially more capable of guiding entrepreneurs toward better outcomes.

Bo Brustkern is co-founder and CEO of LendIt Fintech, the world’s largest event series that provides context to the rapidly-changing universe of technology’s impact on financial services. For over 20 years, Mr. Brustkern has set himself apart as a leader in understanding, funding, and leading cutting-edge developments in fintech and financial services. Mr. Brustkern’s experience includes private equity, venture capital, fixed income, asset management, and investment research. In addition to co-founding LendIt Fintech, Mr. Brustkern co-founded Arcstone Valuation (2006), Arcstone Equity Research (2010), Cardinal Rose Group (2013), and NSR Invest (2013). Previously, he was a venture capitalist at Rustic Canyon Partners in Silicon Valley, and a private equity investor at BACE Industries in Denver, Colorado. Prior to his career as a private equity investor, Mr. Brustkern was a senior analyst at Wellsford Residential Property Trust (NYSE: WRP), where he focused on acquisitions and development for the fifth-largest residential REIT in the country. He holds a Master’s Degree in Business Administration, concentration in Finance, from the Anderson School at UCLA, with distinction as a Deutschman Venture Fellow (2001).
How the Pandemic Has Created a Foundation for a Decade of Growth in SME Financing

Small & medium-sized businesses are the backbone of the economy. This has never been more true than it is today. SMEs represent 90% of global business interactions and 40% of the average countries annual GDP. Knowing this, it’s hardly a surprise that SMEs are providing 70% today’s employment opportunities. But what is surprising? SMEs also represent one of the most under-financed sectors in the global economy. The World Bank estimates that SMEs have an unmet financing need of approximately $5.2 Trillion each year. Limited to seeking investment from internal funds or personal sources, SMEs’ growth is often constrained by lack of capital and other resources.

In the short term, the emergence of the COVID-19 pandemic has only exacerbated this problem. Economic turbulence has caused investors to become cautious and global lockdowns have made it difficult for SMEs to make contact or establish relationships with new investors. Banks and traditional financial institutions have also scaled back investment, further increasing this unmet need. Relying on their global networks, most large corporations have been able to withstand these economic shocks. But for smaller businesses, one broken link in a supply chain could spell the end for the entire enterprise.

But within crises, there is always opportunity. While many companies may shut their doors, the ones who are agile and adaptable will emerge from the crisis with few barriers to growth.

The COVID-19 pandemic has incited what can only be called a digital revolution. From internal communication to deal sourcing, day-to-day business is now being carried out primarily through online tools. Those who may have previously dismissed the need for digital integration are looking for fast solutions, and tech companies are doing their best to provide.

But what does this mean for SME financing? Opportunity. FinTechs are leveling the playing field across industries and borders. The days of relying on personal resources or traditional financial institutions are over. Digital deal matching platforms, investment apps, and crowdfunding sites have created equal access to global investors. At Opportunity Network, we’ve launched a new tier in our platform, Opportunity Network LITE, which specifically caters to smaller companies and startups. Our goal is to help these SMEs leverage our global network of over 32,000 CEOs and investors so that their growth is not limited by lack of capital or opportunity.

Once connected, SMEs now present a much more attractive situation for investors. Through digital platforms, small and medium-sized businesses can now access and service the same international clientele as multinational companies, without the overhead cost, public scrutiny, and shareholder instability that these large corporations incur. The ability to and normalization of remote work also makes it possible for SMEs to hire diverse and talented teams. Furthermore, social awareness regarding the benefits of supporting SMEs nationally and internationally is growing. Altogether, these factors set the foundation for exponential growth in SME financing over the next 10 years.

Investors will be more likely to spread their capital between several companies. Likewise, SMEs will be engaging with a larger number of investors. This will result in a power shift as the dominant institutions of today cede market share to smaller players and digital conglomerates. The incumbent institutions who recognize this shift and adapt accordingly, partnering with collaborative FinTechs and investing in digital capabilities, will be the ones who continue to succeed.

Governments will also become increasingly part of the SME financing ecosystem. The World Bank estimates that 600 million jobs will be needed by 2030 in order to accommodate the growing global workforce. As SMEs are the largest providers of jobs, government stimulus for these companies will be given high priority. Changes in legal, and notably tax policies, will be made to encourage growth in the space.

So, what will Small & Medium Enterprise financing look like in 2030? Anything but small.

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Carissa Reiniger: There is No Better Risk Than Small Business

Over the past 20 years the culture of entrepreneurship has been hijacked. Fueled by stories like Mark Zuckerberg we think of entrepreneurial success as dropping out of college, raising millions and selling for billions. Billions of dollars are being invested and lost trying to find the next unicorn. Meanwhile, small business owners continue to create significant employment opportunities, restore local communities and drive global economies and yet they are considered too high risk for fair financing options. I believe that by 2030 the pendulum will swing, and we will understand that there is no better risk than small businesses.

Small business owners continue to prove their resilience in the midst of economic downturns and public health crisis’ like the Covid-19 global pandemic. Despite many business owners operating in dire circumstances, they do not give up or pack it in when times get tough. Yes, many of them face incredibly difficult realities and there are many small businesses that are not in a financial position to sustain themselves through many months without revenue, but what they may lack in financial infrastructure they make up for in tenacity, commitment and sheer willpower.

There are very few people in the world who have these traits and when considering if someone is a good candidate for investment, these character traits need to be on the top of the list. By 2030 we will have the insights and learnings of Covid-19 behind us and we will see that beyond a shadow of a doubt, small business owners fought for our economy and proved that they are a great investment.

The flood of alternative lenders into the small business lending space has made some progress in opening up access to capital for small business owners. But the major flaw in the design is that they are operating with the point of view that small businesses are high risk and the attempt to mitigate that risk has been to charge high interest rates. The irony of this strategy is that when a small business is being charged prohibitive interest rates it significantly decreases their chance of being able to pay the loan back. We have created an entire system that is perpetuating the problems it was meant to solve. With another decade of advancement and refinement we will understand that we need to make capital accessible and we need to make it affordable. We will realize that by trusting in small business owner’s resilience and giving them capital at rates and fees that are not prohibitive we will see more small businesses succeed and more investors get returns.

In the current model of small business financing we give technical assistance secondary priority and many of the existing training, mentorship and workshop-based programs that are offered have minimal effectiveness. In a post Covid-19 world we are being forced into a very long overdue modernization of small business technical assistance. In this shift we will discover that when we focus on outcomes, not outputs and when we invest more heavily in small businesses by wrapping comprehensive support around the small business owner, we will see a dramatic increase in results. This will reveal that it is not accurate that small business owners are high risk, but rather, that we have not been supporting them properly. By 2030 we will be delivering modern, comprehensive support programs for small business owners and by doing so have a significant impact on their success which will, quite literally, prove that small business is a strong investment.

We all say that small business is important and are investing time and money trying to come up with solutions that help business owners and also protect our own risk. Despite that, small businesses do not feel that they are getting the support that they need, and lenders are still worried about their returns. No one is winning right now. The way to make meaningful changes to small business financing is to start with a complete mindset shift. Instead of thinking of small business as a risk, think of them as the committed, tenacious and resilient humans they are who are fighting for their mission, their families, their teams, their communities and the economy every single day. Instead of giving out funding with interest rates that are literally crippling a small business owner’s ability to pay them back, give access to capital at fair rates and set the business up for success. Instead of offering ineffective technical assistance programs that do not work and using that to justify our belief that small businesses are high risk, take responsibility and offer the right support that will actually help small business owners and quite literally, improve their risk profiles.
As we shift our mindset and appreciate small businesses owners for who they are and support the businesses that they create in ways that are actually helpful we can increase the success rate of small business owners and the return rates of all who invest in them. As this happens over the next decade, we will live in a reality by 2030 where it is clear that there is no better risk than small business.

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Carter Hoffman: SME financing in 2030: The role of people in a technology powered future

In terms of technological innovation, ten years is an eternity. Some of the radically adopted and profoundly influential technologies of today were in their mere infancy ten years ago, hardly more than an idea. Applied to industries like banking and finance, ten years of technological advancement will produce profound ramifications. To understand the way that SME financing will look a decade from now, one must first conceptualize the broader environment in which it will exist.

In 2030, the banking landscape as it is known today will be radically different. Banks will no longer exist as the comprehensive providers that they have been until now. They will instead have morphed into a collection of fragmented, yet interconnected, financial microservices. This will not happen instantly but will come to fruition gradually as banks recognize the value of and acquire an ever-increasing number of innovative FinTech projects. The incumbent banks will not amalgamate these acquisitions into their existing brand. Instead, they will continue to operate the microservices as separate entities under the umbrella organization of the original bank, reaping the benefits of the bank’s pre-existing customer base along with the clean reputational slate of the newly acquired FinTech. Over time, as banks reconstruct themselves as a patchwork quilt of FinTech innovation, they will see gaps emerge. The immensely competitive landscape simply will not allow a single bank to acquire the most innovative initiatives in every area. By 2030, however, service gaps like this will not be an issue for banks. Advancements in Distributed Ledger Technology (DLT) will make it second nature for even financial institutions to interact with each other and their respective microservices across a secure and decentralized network.

Through this interwoven gamut of microservices, consumers will have access to a comprehensive range of best-in-breed financial offerings, giving them the opportunity to construct a banking experience personalized to their unique needs. Many of these microservices will interface with one another behind the scenes. A supply-side investing microservice from one institution could be integrated with a demand-side borrowing microservice from another to facilitate a seamless peer-to-peer lending ecosystem. It is within this environment that SME financing in 2030 will exist.

The microservice best geared towards demand-side SME financing will be an AI algorithm-powered mechanism that examines an SME’s entire financial standing and provides a near-instantaneous financing evaluation. Primitive versions of this, at least by 2030 standards, are already in place today, helping to free up resources by streamlining legacy processes and making funding available to traditionally marginalized smaller organizations. Over the next ten years, technologists and bankers will continue to work together to radically refine these financing engines, affording them precision prediction capabilities unfathomable to the mind of 2020.

It is once this algorithmic approach to the financing process gains a degree of widespread traction that the largest people-centric shift in SME financing will begin to occur. Banks will disband their armies of lending analysts, the services of whom will no longer be needed after the unconditional surrender of paper applications. Being out of the trenches, however, does not necessarily signal the end of the former analysts’ involvement. These are some of the people who will best know the ins-and-outs of what the latest algorithms look for. In many instances, they may have even held a guiding hand over their development. Individuals like these will be perfectly poised to work with financing seekers to optimize their algorithmic potential. And with that, a new industry will be born. One that we will call Financing Engine Optimization (FEO).

In much the same way that Search Engine Optimization (SEO) has grown to become an $80 Billion industry by tweaking websites in algorithm-friendly ways to rank higher in search results, FEO will grow by helping financing seekers make minor financial tweaks in algorithm-friendly ways to boost the potential of the available financing. Perhaps, shifting cash from a savings account to a checking account will allow for an extra $250 of pre-approval, or perhaps using that cash to partly pay down an existing debt would pre-approve an additional $750. A collection of small wins such as these could add up to a substantial amount, particularly for cash strapped companies. Larger efforts, while likely requiring more work and longer time frames, could produce much greater increases in available funding. As an added benefit, with the robustness of ten years’ worth of machine learning to their benefit, doing what is best for the financing algorithms will also simply be what is best for all parties involved in the real-world transaction to follow.
If tweaks like this are also so beneficial to the real transaction, why would services advising them not already be widespread? The short answer: cash. Almost by definition, SMEs seeking funding do not have excess cash to spend on extravagant consulting services. By operating on a commission basis, taking only a percentage of the financing increase that they generate, FEO consultants will be able to overcome this barrier. The decision to spend on their service is no longer a matter of how much it will cost, but of how much it will pay.

In 2030, SME financing will be very different than it was a decade earlier. AI-powered SME financing microservices in the fresh banking ecosystem will give rise to a new industry: Financing Engine Optimization. By combatting black-hat FEO practices and continually improving the algorithms in use, FEO will expand the bridge that the AI microservices will have already constructed over the SME financing gap of today. The burden now lies in the hands of those with the power to shape this new world. The next generation of small business owners is relying on you to make the transformations they need for their enterprises to flourish to their fullest unconstrained potential.

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Celine Ho: SME finance as an ecosystem offering customized bundled product

Building Lego blocks, via an online Marketplace
By 2030, we will be competing in a data-driven world, where data and analytics will become the backbone of all future service offerings and business models.

Open Banking is a major catalyst transforming business models in the financial sector and making SME finance to be fast, furious and flexible. Open Banking is the regulations that make traditional financial institutions share their customers’ data (after obtaining consent from the customer) with third party, in a secure, standardized manner, creating a level playing field across Financial Services Providers (FSP). By 2030, access to finance will be much faster: with the spread of open APIs, FSP can quickly make informed decisions reducing the “time-to-yes” and the “time-to-cash” on an SME loan to just a matter of minutes. By 2030, financial services and products offer will be expanded widely: SMEs will have access to finance not only from incumbent banks, but also from fintech challengers, bigtech, crowdfunding platform, and other FSP. Competition will be furious which will benefit SME to have access to finance at the lowest cost and more rapidly. All in all, SME finance will be much flexible, SME will have greater choice, easily compare products and services across FSP, and look out for tailored made finance.

Data will be stored in a single destination into a public Universal Cloud Computing, which will be accessible everywhere, anytime by FSP. The volume of data generated is growing exponentially and will be migrating to a single and secure Universal Cloud Computing. By 2030, FSP from every corner of the world, will be able to access data in one stop shop from the Universal Cloud Computing, and apply advanced analytics, artificial intelligence (AI) and machine learning (ML) for integrated insights. Accessibility to the Cloud will be a game-changer for how FSP will operate and serve SMEs around the world. The Cloud is not simply a location for data, it is a method for change, and a foundation for business transformation in financial services.

By 2030, SME finance will not only be about providing financial products and services but will also integrate customer journey. As data become mainstream, widely used and widely accessible, people will place greater importance on data security, privacy and transparency. The focus will shift on understanding customers more comprehensively in order to develop tailored advisory recommendations and products. SMEs will be looking for financial products and services which are tailored made and integrate the customer’s journey. By 2030, data analytics capabilities, AI and ML will be the “new normal” to improve personalization and deliver more value-added services.

To fully integrate the customer journey, FSP will further exploit open data to offer financial services and products that goes beyond the traditional finance and propose bundled services. By 2030, FSP will not only provide traditional loans but also provide customized products and services such as overdraft protection, bookkeeping, expense management, factoring and supply chain management. FSP will propose bundled services that offer a selection of services and products to SMEs. We can already see this today in the consumer market with the emergence of bigtech. Via an online marketplace, customers can buy books, electronics, software, video games, apparel, furniture, food etc. but also stream videos, listen to music, and now get financial services such as lending, insurance and asset management.

By 2030, SME select financial services and products from FSP and build the most customized finalized bundled product, like building Lego blocks, via an online Marketplace. FSP will leverage the gigantic customer data base available on the Universal Cloud Computing, apply AI/ML to better understand the SME’s behavior and needs, and propose tailored made financial services and products. FSP will offer their bundled services and products all in one place: the online Marketplace. When entering into the Marketplace, SME will have to create a profile, and different financial services and products from various FSP will be made available based on their profile data. SMEs will be able to shop around, compared different services and products from FSP from all over the world, and have the flexibility to bundle different financial services and products.
Celine is a certified Chartered Financial Analyst (CFA) working at the International Finance Corporation (World Bank Group) on business development and relationship management with companies, banks and investors based in Western Europe. She brings a balance of prudential regulation and supervision background from her previous work at The Bank of England where she supervised Asian banks in the UK and supported the Brexit authorization process for European Investment Banks. Celine is passionate about digital economy and fintech.
According to the World Bank, Small and Medium-sized Enterprises (SMEs) account for 90% of businesses and more than 50% of the workforce—numbers that increase when including the informal sector. In Africa, the youth population is expected to double by 2050. In 2015, African Development Bank showed that of the total youth population, 50% contributed to the economy and yet only 15% of that number were wage earners. Africa’s youth is its biggest asset, but inadequate access to employment opportunities is pushing job seekers into the informal sector. Over the next ten years, increased employment demand resulting from population growth will make SMEs in both the formal and informal sectors a critical bridge in tackling unemployment and stimulating economic development.

JUMO is a financial technology company powering a new wave of financial tools and enabling millions of people to prosper, build their businesses and drive economic growth. Approximately 25% of JUMO’s customer base is between the ages of 18 and 24 years, many of them entrepreneurs. Providing this segment over the next ten years with the needed financial services and tools is part of JUMO’s plan to meet this financing gap.

In addition to the difficulties already faced by SMEs, the economic impacts from Covid-19 over the short and long term will have dire consequences for this segment. Stimulus for it is therefore crucial in order to generate economic activity and meet increasing employment demand. A key problem here is assessing the credit risk and failure rate of SMEs, which is not an easy task. Traditional financial institutions generally have low-cost capital but high operating costs, making efficient capital deployment difficult in this context: it is not easy for financial institutions to assess risk across multiple industries and sectors without introducing prohibitive costs or hurdle rates for SMEs.

The failure rate for the average SME is 20% in the first year, 30% in the second; only about half make it to their fifth year. The rate of failure is generally attributed to: No market needs for the business. Lack of funds. Not having the right team. Being outcompeted. Product pricing and cost issues.

These can be clustered into: 'The Jockey', relating to the owner and management team. ‘The Horse’, relating to the business and associated operations. ‘The Track’, relating to the industry and broader market.

Which cluster should the financial institution consider when assessing the risk of SMEs? Or should it be a combination of all three? If the best resources in venture capital struggle when using these clusters to identify which businesses are most likely to succeed, how would traditional financial institutions do this without prohibitive costs attached? This inefficiency has largely been addressed by the advent of fintech, which uses advanced alternative methods and data to assess risk, like Machine Learning (ML) and Artificial Intelligence (AI), as well as offering simpler service types, niche products, and focusing on specific segments — creating, for example, new markets by focusing on including the unbanked. This is achieved through the development and implementation of lower-cost, scalable systems and processes, which leverage innovative infrastructure and cloud capabilities, all at a fraction of the costs generally incurred by traditional financial services institutions.

Though regulation and innovation are often seen as hindrances to innovation in the financial sector, some forward-thinking governments have created regulatory sandboxes to allow innovation. When considering what could positively impact the future of SME financing, it is important to remember that innovation can only take place in a market that welcomes it. JUMO has championed the partner model since inception and proved its efficacy year on year. In Zambia, for example, our partnership with MTN, ABSA, and the Bank of Zambia has allowed us to create an ecosystem that is beneficial to all — and most of all the customer. The marriage of forward-thinking regulators, of fintech’s advanced technology, and of the low-cost capital available through traditional financial institutions enables the creation of affordable, customer-appropriate products and services with broad reach. When governments understand that supporting SMEs with regulatory sandboxes and capital underwriting for development financing in key sectors, the result is increased availability of funds for SMEs, employment opportunity, and economic prosperity. The future of finance for SMEs in developing regions, therefore, lies squarely in the hands of regulators, banks, FinTechs and telcos, all committed to working together to develop and deliver appropriate products that can fill the financing gap beyond 2030.
Charl du Plessis is striving for systemic change in financial inclusion and access to financial services. He is currently the Group Head of Portfolio Strategy for financial technology company JUMO. Prior to that, he spent more than a decade in strategic banking roles including financial modelling, capital management and small enterprise portfolio management.
When looking ahead to SME financing ten years from now I can expect SMEs to be supported by a range of financiers including digital lending platforms such as Beehive (peer to peer lending), challenger banks and specialist providers focused on particular structures, such as working capital finance, merchant cash advances (MCA), mezzanine, etc. Today banks are still dominant because they offer a full range of banking services, but as these become disrupted by focused providers that are more efficient many banks will partner with FinTechs to improve and accelerate their services while striving to “own” the end customer relationship.

By 2030, all financial institutions (FIs) and fintech companies should become innovative partners, not competitors. FIs benefit from the agility and customer centric model of FinTechs, whereas FinTechs often need the help of FIs for reasons such as reach, wider industry knowledge and regulatory reasons. In fact, Beehive has just partnered with GIB in Saudi Arabia to deliver a best in breed SME offering to form the first partnership between a fintech and a bank in KSA.

All FI players such as FinTechs, banks, regulators and tech companies must work together to succeed in the next decade. It is important that senior management sponsor and drive cultural and organizational alignment to deliver the greatest value from partnerships. SMEs feel empathy and can relate to FinTechs as they’re likely to be a similar size company, so banks can harness that and gain more SME clients if they adopt the fintech customer centric mantras and approach.

Over the next ten years, processes driven by automation and artificial intelligence (AI) are likely to replace repeatable and standardized tasks. Institutions will need to ensure their talent pool has the skills required for qualitative decision making and empathetic engagement with customers.

One of the issues of the SME is that smaller organizations struggle to present the depth of data needed for more traditional creditworthiness decisions. The greater use of cloud financial systems and real time APIs will mean SMEs will be able to record and provide timely data, making financing assessments easier. AI and machine learning will allow new approaches to problems like how to solve the credit gap by reducing the cost of the credit assessment. AI solutions can include alternative data sources or relationships to take a more holistic view of creditworthiness, which should result in greater SME financing.

To aid evolution, governments are likely to seek more foreign direct investment (FDI) to bring new technologies, knowledge and innovative processes to increase efficiency. Alongside this they will continuously develop infrastructure to support innovation.

Governments will focus on developing societal solutions from outside government, rather than trying to solve problems themselves. This should result in a big increase in public-private partnerships and encourage the growth of triple-bottom line businesses that pursue social and environmental goals along with financial ones. An example: The National Innovation Strategy (NIS), launched by H.H. Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai aims to take innovation in the UAE to new heights, where a culture of innovation is embedded amongst individuals, companies and governments. It primarily focuses on identified priority sectors that will drive future innovation. An ideal environment for innovation is underpinned by supporting laws and regulatory frameworks. The NIS seeks to establish the innovation regulatory framework by developing rules and regulations that promote innovation, allowing for the rapid enactment of relevant legislations.

The SME finance gap in 2030 will be a function of risk and return. Technology will allow more granular lending decisions at cost effective rates (i.e. micro SME lending) but FIs will need to provide more services to SMEs or clearly communicate their risk tolerance to manage SME owner expectations to avoid account churn. FIs that provide a superior service across a broad range of SME offerings will see divisional revenues will see divisional revenues increase while decreasing financing cost due to operational efficiencies, deeper customer insights and greater volumes. SME financing is harder and more complex than consumer financing but for those FIs that get it right, there is a huge opportunity. Risk tolerance and management will determine the size of any gap and this may require continued government support across many countries to create and reinforce the mindset and resource allocation required for SME-supported economic success.
As Founder and CEO, Craig is responsible for overseeing the overall strategic direction and managing the day-to-day operations of Beehive. Before founding Beehive, Craig was a Founder & COO of Butterfly Software, a UK based data analytics and migration software company, acquired by IBM in September 2012. Prior to Butterfly his experience includes sales, consulting and finance roles at various multinational companies such as Dell, EMC, Hitachi and HSBC with an emphasis on shaping effective go to market and value propositions.
**Dileep Rao:** How Areas Can Build Growth Ventures Without Venture Capital

**Lessons from Billion-Dollar Entrepreneurs**

**Problem:** Policy makers have tried many strategies to bridge the finance gap from Idea to Aha – when potential is evident. These strategies assume that venture capital (VC) and opportunities (incubators, shark tanks, and pitch contests) are key to venture growth. But VCs fund few ventures and fail on most. And most opportunities have limited potential or can be imitated.

Policy makers are looking in the wrong direction. They should look towards entrepreneurs. An analysis of 87 billion-dollar entrepreneurs (BDEs), who grew from startup to more than $1 billion in sales and valuation, and 23 hundred-million-dollar entrepreneurs (HMDEs) suggests that venture developers should focus on developing growth-oriented, finance-smart entrepreneurs who:

- Apply new technology skills to develop businesses in emerging trends
- Grow with business strategies and skills of BDEs to grow with less, and
- Use finance strategies and skills of BDEs to take-off with control.

Here’s why. 99% of BDEs took off without VC by improving on emerging-trend strategies, using growth-seeking strategies and finance-smart skills as an integral part of their venture – not as an after-thought. These skills and strategies can help all entrepreneurs to take-off without VC.

**Truth about VC:** The prevailing belief is that venture growth needs VC, and that more VC will create more growth ventures. But it is worth noting that (The Truth About VC):

- VCs only fund about 100/100,000 ventures and fail on 80 – only 20/100,000 ventures gain from VC
- VCs need home runs to offset their huge failure rate – but only 1% of VC ventures are home runs.
- Home runs are mainly financed by ~20 VCs in Silicon Valley who earn about 95% of VC profits
- VCs outside Si Valley, have not done well due to the scarcity of home runs
- VCs finance after Aha – entrepreneurs need to bridge the finance gap from idea to Aha!
- The few VC successes outside Silicon Valley are often sold to strategic buyers to give VCs an exit – and reduce long-term benefits to the area.

**Reality of BDEs:** Among 87 unicorn-entrepreneurs and 23 mini-unicorn entrepreneurs, 1% used VC after opportunity Aha, 5% obtained VC after proving their strategy, 18% got VC after proving their leadership skills to develop an unicorn, and 76% avoided VC. This means that 99% of BDEs bridged the gap from idea to Aha with finance-smart skills and unicorn strategies, not with VC or unique opportunities. Sam Walton succeeded with a fast-mover strategy and skills, not with a first-mover idea and VC. Other BDEs who succeeded with finance-smart skills and unicorn strategies include Dell, Kierlin, Schulze, Schultz, and Zuckerberg. A few, such as Gates and Kalanick, pivoted after launching. Some, such as Els and Plank, used products that could be imitated but dominated with the right skills.

This means that areas outside Silicon Valley can build more successful SMEs and growth ventures by using skills-as-a-weapon rather than VC-as-a-weapon. They need to train growth-oriented, finance-smart entrepreneurs to take-off without VC. After Aha, growth (and VC) financing is more productive and less risky. This strategy is better than offering VC to high-risk opportunities and failing on 80%.

**Need for Finance-Smart Entrepreneurs:** Growth-oriented, finance-smart entrepreneurs grow more with less by optimally mixing smart skills and strategies, internal cash flow and the right external sources. Instead of using the top-down approach of offering VC, areas can develop more growth ventures by using the bottom-up approach of developing growth-oriented, finance-smart-entrepreneurs. To do so, areas should:

- Train all entrepreneurs to take-off without VC. No one has consistently picked winners before Aha. 10+ VCs rejected Apple and Google – perhaps two of the greatest ventures ever
- Finance those who take off, if they need it. It is likely they will attract financiers on their own.

**Skills and Strategies for Finance-Smart Entrepreneurs:** Instead of wasting capital with the hope of creating wealth, entrepreneurs should be trained to create more wealth with less capital by using the following skills and strategies of billion-dollar entrepreneurs:

- Opportunity skills and strategies to enter a growth trend with limited capital
- Operational bootstrapping skills and strategies to emerge...
with limited capital

• Strategic bootstrapping skills and strategies to get an advantage with limited capital
• Financing skills and strategies to grow more with less and keep control
• Launch skills and strategies to take-off with limited capital
• Control skills and strategies to monitor and control the growing venture
• Organizational skills and strategies to develop human capital and lead
• Leadership skills and strategies to grow personally and dominate.

Conclusion: VCs fund few and succeed with very, very few. According to a top VC, ~4% of VCs earn ~95% of VC profits. The World Bank, IFC, and areas outside Silicon Valley should train all interested entrepreneurs with the proven finance-smart skills and unicorn strategies of BDEs to launch more growth ventures with less. By doing so, skills can eliminate financing as a constraint to growth.

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Dr. Rao’s background includes:

VENTURE FINANCING. VENTURE DEVELOPMENT.
• Managed VC and loan funds: Financed ~450 businesses using VC, equity, debt and leases
• Trained entrepreneurs to build growth businesses with skills before early-stage VC

VENTURE CONSULTING
• U.S. Government and Community Development Financial Institutions
• Fortune 500 Corporations & Financial Institutions: New Business Development
• Ventures: Business strategies and plans for financing and growth.

MANAGING DIRECTOR/ COO
• Manufacturing: Pool tables and wood furniture; sawmill; food processing; agribusiness
• Retail: Fast food; chain of convenience stores (chairman)
• AWARD-WINNING ENTREPRENEURSHIP PROFESSOR
• Teaching entrepreneurship at Harvard, Stanford, INCAE, MN, FIU, Europe, and Latin America

DEVELOPER OF UNICORN-ENTREPRENEURSHIP PROGRAM TO GROW WITHOUT VC
• Researched America’s unicorn-entrepreneurs: 99% used skills & strategies to grow w/o VC
• Training entrepreneurs in capital-deficient areas to develop ventures without early-stage VC
• Training economic developers to help new and growing ventures

BLOGGER & AUTHOR BOOKS FOR VENTURE DEVELOPMENT
• Forbes.com: Blogger
• American Management Association: Handbook of Business Finance & Capital Sources like the U.S. Cavalry, Rao’s Handbook enters the scene just in time”... Inc. Magazine o “Handbook may be the definitive guide to U.S. financial sources”.Corporate Report
Dino Setiawan: Digitizing the supply chain to bank the unbanked

SME financing in 2030 will leverage digitized supply chain ecosystems to:

- access transaction data predictive of credit performance;
- control payment receipts of borrowers’ revenue; and
- build virtual branch networks with partners in the supply chain.

Supply chain digitization enables low risk lending without need for physical collateral and into customer segments previously unbankable/unreachable. The proof of concept for this future vision is already being successfully demonstrated by AwanTunai’s work serving the downstream FMCG and food supply chain in Indonesia. AwanTunai has enabled Indonesian banks to deploy their low cost capital to fund working capital needs of previously unbanked micro SMEs and fund larger SME loans without the need for physical security.

This breakthrough solution involves digitization of valuable micro merchant KYC data and merchant inventory purchase transaction data from wholesale suppliers. This KYC and transaction data powers bank accepted credit models opening up unbanked micro businesses to affordable bank funding. The AwanTunai ecosystem also enables payment acceptance by wholesalers of AwanTunai’s digital credit. By providing inventory purchasing financing for the wholesaler’s merchant customer and controlling funds disbursement directly to the wholesale supplier bank account, it’s possible to get first access to that wholesaler’s revenue stream. This alleviates the need for physical collateral to derisk lending. SME lenders who digitize supply chains can deliver asset light branchless unsecured SME financing as the future of banking.

Being able to provide low cost financing to micro and small enterprise customers of larger wholesale suppliers is critical to digitizing a supply chain. Tech adoption has been historically difficult in the micro SME segment, so a technology solution must deliver a clear and immediate benefit. Access to low cost financing provides this incentive to drive user adoption without excessive promotional costs. Micro SMEs have historically been underserved by the banking industry in emerging markets. Lack of credit data visibility with thin credit bureau coverage, lack of bank branch coverage, and regulatory compliance requirements have stymied efforts for banks to widely serve the mass micro SME segment. Delivering low cost financing to this underserved segment provides strong incentive for technology user adoption among downstream players in the supply chain.

Once micro SMEs have adopted mobile app usage for digital ordering and payments, digitizing the supplier’s operations becomes feasible. The challenge is to provide low cost financing to this unbankable mass micro merchant segment. How can we efficiently originate, safely underwrite, and manage micro SME loans notorious for being difficult for banks to serve? AwanTunai’s solution is to work with suppliers to access their captive customer market. To digitize and capture valuable merchant KYC and merchant inventory transaction data by collaboration with traditional wholesalers who supply these micro merchants. Integration of digital inventory orders from micro merchants and digital payment acceptance hardware at supplying wholesalers generate validated SKU level transaction data that is highly predictive of business performance. Such transaction data combined with KYC knowledge obtained by referrals from wholesalers acts as a good proxy to replace the absence of sufficient credit repayment data to determine creditworthiness.

We use access to our low-cost finance to incentivise unbanked micro merchants to use our app for inventory purchasing. This enables digital capture of transaction data that powers underwriting accurate enough to offer low cost financing. This synergy is the success factor for digitizing the supply chain. Merchants being able to access low cost inventory financing then consolidate their inventory purchases with those wholesalers who are offering our low-cost financing. This boosts wholesalers’ sales and profits which incentivises them to adopt our system and increasingly push their micro merchant customer base to adopt our technology solution. Boosting sales for both wholesalers and micro merchants is the driver for both parties to adopt technology solutions which have been historically difficult to deploy.

Another key success factor in digitizing the supply chain is achieving operational efficiency. The cheaper the financing, the stronger the incentive to adopt the technology solution, especially for unbanked businesses who typically are only able to access expensive informal financing. This low-cost scalable solution is possible by collaboration with supply chain players like the thousands of independent wholesalers that supply millions of micro merchants in Indonesia. For the price
of a $200 EDC terminal and 2-week sales cycle to onboard a wholesaler, the network gains access to a guaranteed inventory supply, warehouse, delivery trucks, a captive market of micromerchants. The low cost of acquiring and integrating the technology solution with a wholesaler along with the low customer acquisition cost by leveraging a wholesaler’s network serves to further lower the cost of financing these unbanked micro merchants.

Such a digitized closed loop payment and financing system enables control of a wholesaler’s revenue cashflows - introducing a powerful risk control that can derisk SME loans to the extent physical collateral is no longer needed. Since wholesalers adopting the AwanTunai technology solution are able to accept AwanTunai credit as digital payment, their micro merchant customers are able to purchase inventory on a cashless basis. AwanTunai as the lending platform routes the bank lender funds directly to the wholesalers selling the inventory - not to the merchant borrower who is purchasing the inventory. By controlling the revenue payment for the inventory, in other words the loan proceed is disbursed to the supplier not the borrower, the system controls the supplier’s cashflows. This solution enables large ticket sized unsecured lending, opening up productive lending to unbanked businesses who are typically asset poor.

Finally, the wholesaler suppliers themselves, who are equipped to handle sizeable cash-in operations for repayment servicing can act as an SME lender’s physical “branches”. No longer will SME lending be restricted by an expensive branch network. The future of SME lending is to leverage existing supply chains. Supply chains that when digitized, captures valuable KYC and transaction data. Supply chains that when digitized, creates a closed loop payment system to control supplier revenue flow. Supply chains that when digitized, opens up the mass unbanked market to SME lenders.

Mr Setiawan is an experienced fintech entrepreneur, having lead a Silicon Valley based fintech start-up after Stanford Graduate Business School, which provided US banks access to sub-prime borrowers via a credit enhancing platform. He currently leads AwanTunai, an institution-to-peer fintech lending startup that provides local financial institutions access to the vast underbanked market in Indonesia. Prior to his roles in tech, Mr Setiawan was a Vice President for Morgan Stanley Indonesia, working 6 years in Indonesia as an investment banker assisting with capital markets deal origination, execution, and client management. Mr. Setiawan spent the first 6 years of his banking career in Australia after graduating from University of New South Wales. His roles covered interest rate derivatives product control, treasury risk management, and corporate banking.
Inclusive financing models

Cooperation between traditional banks and non-banking institutions on digital finance in China

To integrate resources and complementary advantages, traditional banks partner with non-banking institutions, offering innovative financial models and transforming lending markets by reducing costs, improving customer experience and enhancing credit risk assessments. Traditional banks usually have low cost funds but rely heavily on collateral, which MSMEs and poor groups rarely have. Non-depository institutions (i.e., non-banking institutions), on the other hand, are capable of providing lending services to MSMEs and poor groups without requiring collateral but usually bear high cost funds. Non-depository institutions, especially e-platforms and fin-tech companies, can exploit the enormous information-generating advantages provided by large, real-time data produced in the now-digitized real economy at very low costs, in conjunction with the application of increasingly powerful and efficient artificial intelligence algorithms. With rich contextual and real-time information, fin-tech companies can make risk assessments on the spot, minimizing fraud at low cost.

The cooperation between traditional banks and non-banking institutions involves various forms of credit, including consumer and business lending, and non-loan debt funding such as invoice financing. The benefit of low-cost funds from banks and lower cost of operations of non-banking institutions would be passed on to the ultimate beneficiaries which include underserved segments of the population or the business sector, providing a more universal lending service and a more affordable interest rate. Two common cooperation models are introduced in the following sections.

1. Partnership lending model

Partnership lending refers to credit activity facilitated by non-banking institutions, including leasing companies, consumer finance companies, micro-finance companies, electronic platforms, fin-tech companies, etc. In this model, non-banking institutions, also called credit-facilitating institutions, usually offer a matching service-acting that brings together creditors and borrowers, but the loan is 100% originated by banks. Banks earn interest from clients while credit-facilitating institutions receive service fees from banks.

Steps of Partnership Model between Banks and Non-banking Institutions:

**Step 1:** The most important functions of non-banking institutions are to identify potential clients, conduct initial risk assessments and direct high quality borrowers to banks. Clients submit loan applications to non-banking institutions who then conduct initial risk assessment using contextual data collected through their e-platforms. Based on the initial risk assessment results and risk preferences of banks, qualified borrowers will be introduced to banks.

**Step 2:** In some case, there may be credit enhancement institutions, such as insurance and guarantee companies, involving in this model to safeguard the principal or interest on loans. Yet, credit enhancement is not an indispensable part of this cooperation model; in fact, Chinese authorities bar non-banking institutions from guaranteeing principal or interest on loans they facilitate through unregulated or unlicensed guarantee companies.

**Step 3:** Banks are required to conduct risk control independently based on credit and financial data that they are capable to access. For qualified clients, banks sign agreement with them as lenders and assign credit to them. For each client, a specific payment account will be opened for loan distribution and repayments.

**Step 4:** Both banks and non-banking institutions can be responsible for loan management, albeit services, such as loan monitoring and collection, are usually provided by non-banking institutions. As required by regulators, institutions not licensed as a credit intermediary are not allowed to originate loans; in another word, in this model, non-banking institutions only earn service fees while banks earn interest.

2. Co-lending model

The co-lending arrangement entails joint contribution of credit by both traditional banks and non-banking financial institutions. It also involves sharing of risks and rewards (i.e., interest) between the bank and the non-banking financial institutions for ensuring appropriate alignment of respective business objectives. In this model, non-banking financial institutions
must be licensed and regulated as a credit intermediary in order to originate loans or retain loans on balance sheet.

Steps of Co-lending Model between Banks and Non-Banking Financial Institutions

**Step 1:** Client acquisition. Clients submit loan applications to non-banking financial institutions.

**Step 2:** Risk assessment. The lenders independently assess the risks and requirements of the applicant borrowers. Specifically, banks rely on financial and credit data in the banking system while non-banking financial institutions usually rely on contextual and real-time information from e-platforms to conduct risk assessment.

**Step 3:** Signing of contract. Qualified clients will be asked to sign a single loan agreement in which both the bank and the non-banking financial institution are parties as lenders to the loan agreement with the customer.

**Step 4:** Loan contribution and repayments. The bank and non-banking financial institutions usually open an escrow type common account for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers. Both lenders are responsible for day to day monitoring and recovery of the loan, as mutually agreed upon.

In fact, the above two models are practices of open banking in China which is believed to be the trend of future finance industry. While the above two cooperation models have been relatively successful in the market, further development of these models in the future could present a mix of financial stability benefits and risks. Among potential benefits are effects associated with financial inclusion and more diversity in credit provision. Among the risks are a potential deterioration of lending standards, excessive borrowing from multiple platforms, a disorderly impact on traditional banks (e.g., greater operational and reputational risks by partnering with platforms) and challenges for regulators in relation to the regulatory perimeter and monitoring of credit activity. In this context, the goal of financial authorities should be maximizing the benefits of digital finance while minimizing potential risks for the financial system by adjusting policy frameworks and providing guidance.
COUNTRY VISIONS/REGIONAL VISIONS
Imagine that one day ten years later, when a small and medium enterprise (SME) applies for a loan, the entrepreneur will only need to submit an application with very basic information about the business through a mobile device. Within a few minutes, the SME can get funded by a bank. Today, in contrast, SMEs still have to prepare a variety of documents and suffer a pro-longed underwriting process.

Please note that all of this is not simply an illusion. Digital finance powered by innovative digital technologies such as big data, artificial intelligence, and biometrics has been profoundly reshaping the global financial service industry. Smart Banking has become a new trend in the global banking industry. In the future, accessing financial services is expected to be as convenient as sitting in a self-driving car.

For a long time, limited by factors such as lack of credit information or insufficient collateral, SMEs have often been excluded from the financial services of banks. Although governments and international organizations have tried their best to provide various forms of policy incentives and financing support, key problems - high service costs, the last mile issue, and low-level of commercial sustainability - remain to be severely challenging. With the arrival of the Digital Age, the integration between financial services and digital technologies has been accelerated, which poses a solution to the problems mentioned above.

Thanks to the (mobile) Internet, big data, cloud computing, artificial intelligence and other digital technologies, the time and geographical restrictions of traditional financial services have been removed. The Availability and Coverage of financial services have been effectively improved. We’re also witnessing enhanced Access to financial services for SMEs the same time. In addition, the application of digital technology has greatly reduced the demand for physical outlets and labor in the financial services sector, along with risk control system driven by big data, has further cut the costs of SME financial services.

However, due to the incomplete legal and regulatory frameworks in different jurisdictions, the rapid growth of digital financial services has brought in some risks and challenges. For example, China’s P2P lending marketplaces default events have taken place from time to time. Information security risks (e.g. the leakage, loss and tampering of customer data) have become increasingly prominent. The privacy and fund safety of consumers are extremely vulnerable to infringement. In order to promote the healthy development of digital financial innovations, international organizations such as the World Bank, IMF, Group of Twenty (G20), and OECD have actively promoted international cooperation on relevant regulatory policies and practices. Country governments have also introduced various forms of regulatory measures. All of these have lead to the formation of current risk control regulatory environments that encourage innovations.

Another critical trend in the development of digital financial services is the gradual transformation of a FinTech model to a TechFin model. In the past period of time, the innovation of digital financial services was primarily driven by traditional financial institutions (e.g. commercial banks, insurance companies, etc.), which is what we have always referred to as FinTech. FinTech companies have inherent advantages in capital capacity and number of customers. By combining digital technology with traditional financial services, they have achieved the diversification of services. However, in recent years, with the emergence of Ant Group, Tencent, Amazon, Facebook and other technology conglomerates, the focus of digital financial services is seeing a sharp shift from traditional financial institutions to internet companies - this is what we call TechFin.

Compared with traditional FinTech companies, TechFin businesses are good at technological innovations and applications. Therefore, with advanced technologies they can better serve long-tail customers that traditional financial institutions cannot cover. However, we have to admit that the monopoly of BigTech multinational companies have posed a potential threat to national security and information safety, which can be attributed to the sovereign and social characteristics of financial licenses and data ownership. Balancing the development of FinTech and TechFin has become a heating topic for many regulators across different countries.

In any case, it is reasonable to assume that digital technology will play an increasingly important role in financial services while the role of human will keep diminishing. But which one will become the dominant mode SME finance? FinTech
or TechFin? Our belief is that in countries with a high level of credit and financial infrastructures, FinTech will prevail. In emerging markets, however, where financial infrastructures are less developed, TechFin will lead the digitalisation of SME financial services. Moreover, TechFin and FinTech can actually be complementary to one another in particular scenarios of financial services to meet the needs of customers at different levels.

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Onur Terzi: Ultimate Turn for Agribusiness Finance

Past decades, agricultural sector has been financed with traditional methods and the development of the sector has been accelerated by financial resources. However, the problems continue in terms of both product quality and food safety. These problems cannot be solved with working capital or farm purchase loans. Unfortunately, the use of financial resources is limited due to difficulty of access to financing resources and high interest costs. Farmers have problems in both accessing financial resources and using that resource properly. Zero-interest loans or incentive packages of public institutions for agricultural production also do not provide permanent solutions in the long term. On the other hand, the costs of loans extended by private banks are always higher than the interest rates of consumer loans. Because banks act by reflecting the risk premium to their interest rates. The basis for this is that many banks (except those whose main business is farm loan) do not know the agricultural business and trade structure adequately and do not work with specialized teams in this field. In this context, 3 important changes can be expected between 2020-2030:

- The emergence of Agri-Fintech companies
- Transferring qualified finance to the sector in cooperation with Agri-Fintech - Financial Institute
- The transformation of agricultural banking into agribusiness banking

We will see the rapid spread of Agri-fintech companies that know the sector very well, can process data belonging to the sector and describe their financing needs. It is thought that those who can look at the agricultural sector in a multi-disciplinary way, making field practices and establish the integration with financial institutions will be successful. Agri-fintech companies will strive to understand the agricultural production chain, improve traceability and provide financing resources with an insured structure. Because it is important for financiers to see that the money they will transfer is used for its intended purpose, to be able to monitor it and to sustain it. In addition, Agri-fintech companies should be able to cooperate with companies that develop new generation production technologies, and they should be able to mediate the farmers or companies in the production chain, which they finance, to provide these new generation technologies. The use of robotic processes and artificial intelligence can be supported by providing more comprehensive and diverse data with new technologies. In this way, it is assumed that decision processes regarding financing needs can be formed fully automatically and at the optimum level.

Agri-fintech companies should start to cooperate with financial institutions by equipping the production chain that continues with production-processing-export with both ERP and payment systems. They should never be competitors of financial institutions. However, making the production chain digitally readable by agri-fintech companies will reveal many alternative financing sources for banks. Because traceable cash flows will allow the emergence of non-cash resources that only correspond to the agricultural goods. Agri-fintech company will be able to help financial institutions offer lower-cost financing resources. This may contribute positively to the financial institution’s ability to control its own resource costs more easily, to significantly reduce the loan rates and to borrowing capacity. Because agri-fintech company will know when the financing source will be transferred to the production chain and when it is the right time to pay back. Thus, Agri-fintech company will be able to use its expertise in the agricultural sector to the financial institution and act as an invisible branch of the bank. Thanks to this structure, it will be possible to ensure that the financing source is fully compatible with the production cycles, the use of unnecessary financing resources is prevented and the interest cost is reduced accordingly, the contracted agricultural infrastructure is established by Agri-fintech companies and integrated with fully automatic and financial institutions. In 2030, a chips producer in the USA will be able to make production contracts with Brazilian potato producers in a few years, and it will be possible to turn the contracts on the blockchain to financial assets for production prepaids. This cooperation is of great importance especially for Eastern European, Sub-Saharan Africa and Latin America. Technologies to be purchased with financing will provide the necessary infrastructure for both tillage and cultivation of new crops. In summary, the cooperation between Agri-fintech and financial institutions will enable the agricultural sector to get a greater share from the total loan market. Today the share of agricultural loans in total loans has an average of 3-4% share.

Even increasing this share by 1% will provide great opportunities for the development of world agriculture. Cooperation of agri-fintech and financial institutions, it is expected that
agricultural banking will turn to agribusiness banking means that agricultural trade and goods/service flows are financed. However, a financial network framework in which both the value chain and the farmer’s relations with other farmers are evaluated jointly must be put forward in order to remove agricultural finance from the traditional understanding and to ensure a real transformation. It may affect every factor, from loan collaterals to interest rates and maturity. Mortgages will be replaced by contracts and credit limits can be calculated by knowing the farmer’s cash cycle. For instance, a fish farm in Turkey will be able to get out of the contract the credit limit of fish exports to the supermarket chain in the Netherlands. All that innovations will enable the incentives provided by the governments to the agriculture to become more qualified. Governments will see clearly the relationship of geographic differences with financing needs and design incentives in a multi-dimensional way. It can be said that the data provided by Agri-fintech company will support decision makers in the public sector for long-term production planning.

As a result, it is predicted that by 2030, agricultural production chains equipped with integrated digital payment systems will have a structure in which financial institutions are credited very quickly and at low cost. It is obvious that Agri-fintech companies can make the financing process of the agricultural sector have the same structure as the non-agricultural sectors with the 3 basic transformations listed above.

In 2003, He graduated from Ege University in Agricultural Engineering and attended Agricultural economics graduate class. He started to work as a sales support and project coordinator in various companies based in Izmir. In 2007, he went to Italy for his doctoral studies and completed his PhD course. While continuing to his doctorate, he started to work in DenizBank as Agriculture Regional Responsible. Throughout his tenure, he met with thousands of farmers in the west of Turkey and mediated the financing of agricultural investments. In 2012, he transferred to the TEB as same position and later he moved to the headquarters. For 3 years, he worked in SME Banking marketing department to do marketing studies for agricultural banking. In 2016, he founded the agribusiness marketing department and he became the head of marketing and business development. In TEB, he created the Agribusiness Big Data by the integration project with FRS (Farmer Registration System) system. In this respect he took the lead in the use of data analytics and AI for agricultural financing. He developed a map-based marketing tool called Agricon. He also actively played an active role in the design of the Tohum branches, which was opened privately by Agriculture. He directed the restructuring project of the hunter team, which was established specifically for Agricultural Banking, and designed the team’s digitization process. After digitizing agribusiness, he worked for digital transformation team for SME Banking in TEB. Onur is still trying to combine the computer science with the agriculture and finance.
As the world continues to deal with the COVID-19 crisis, it is more evident than ever how global economies are dependent on the creation and success of small businesses. Micro, small and medium enterprises (MSMEs) create jobs, enable greater financial freedom and lead to healthier communities overall. Governments around the world have been rushing to support MSMEs as they face unprecedented economic challenges. The consensus across all sectors and national economies is that MSMEs need innovative and flexible financing to sustain operations and help to weather and adapt to shifting commercial realities. Given this consensus, the Federal Reserve Bank of New York estimates paint a grim picture in noting that even healthy SMEs during normal times have less than two months of cash reserves to help weather unexpected crises.

Looking ahead, by 2030, there will be more reliance on digital tools to manage the daily operations of a business and manage financial health. Before the pandemic began impacting economies around the world, consumers and businesses were already trending towards a digital future with global retail ecommerce sales projected to reach $4.5 trillion by the end of 2021. All MSMEs are now essentially digital companies in some facet of their operations, using technology tools to run key aspects of their business. This digital transformation will increasingly shape and direct entrepreneurship following the current crisis. A Pew Research Study found 1 in 4 Americans are already earning money from the digital platform economy.

One clear impact of the COVID-19 crisis is an acceleration of this digital transformation. As economies are shut down and consumers remain stuck in their homes, SMEs are facing the reality that they need to meet them where they are: online. The trend of digital payment adoption and ecommerce has likely been accelerated by 4-5 years in the past few months. Even when economies begin to reopen, consumer behavior will be more cautious and a reliance on ecommerce and digital tools will likely persist given new habits, convenience, and recognized benefits.

In order for MSMEs to adapt to this changing marketplace through the adoption of digital tools, it will be critical to have efficient and timely access to financing. Prior to the onset of the pandemic, the global digital lending market size was valued at $4.8 billion and was projected to grow to nearly $20 billion by 2026. Innovative online financing methods have increasingly helped close the gap in access to capital experienced around the world. The International Finance Corporation (IFC) estimates that the global gap in MSME financing stands at approximately $5.2 trillion, which is even larger for micro firms. MSMEs located in low income areas or female and minority owned businesses have also experienced unequal challenges in accessing capital.

PayPal research, however, has positively indicated that innovative data underwriting models and lending products can help to further close the gap. In the U.S., 70% of PayPal Working Capital loans went to the 10% of counties where 10 or more banks have closed, and these loans are also over-indexing to low-moderate income census tracts. In 2030, technology advancements such as Artificial Intelligence, biometric authentication and advanced analytics will all facilitate this move towards a digital lending landscape. As entrepreneurs continue to move online for their operations, the availability of data on the business and individuals will be easily accessible. This will be crucial as lenders think through new ways to assess credit worthiness. The evolution of AI technologies can help institutions separate those factors to determine risk, ensuring that the financing will help the SME without burdening the individual.

Aside from assessing credit risk differently in order to lend more freely to MSMEs around the world, the type of financing product that these businesses will need will likely look different in 2030 as well. The global pandemic has highlighted the need for credit products tailored to the economic realities of small businesses seeking to emerge from the economic chaos. More specifically, past and forward-looking business performance data and projections will be distorted given frequent shutdowns and limitations on operations. Accordingly, credit products that link repayment to fluctuating periodic revenues (as a percentage of such revenues) will better align with MSME economic realities and give these businesses the appropriate flexibility to restart and rebuild.

Finally, innovative government-sponsored programs and sources of funding may look fundamentally different in 2030 as the pandemic has driven greater partnership between the public and private sectors. Governments around the world have prioritized MSME support during this crisis and have opened the door to working with non-bank providers, like PayPal,
which can efficiently reach underserved MSME populations. Given the success of these programs, we may continue to see funding set aside for more equitable access to capital for entrepreneurs in the future.

It is clear that in 10 years, the need for capital for MSMEs will remain as critical as ever. The move towards a more digital future will help to create more innovative products that benefit the smallest and most overlooked segments of entrepreneurs. Leveraging emerging technologies to think through the ways we assess and serve small businesses will be an important step in closing the gap in access to capital. Furthermore, flexibility amongst governments to allow for greater merging of public and private lending solutions will help in creating a framework for all small businesses to thrive.

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Rachel Freeman, John Kane: Knowing you, Knowing me - The SME Bank of the Future

In the first phase of digitalization, digital brought in faster, more efficient standardized processes, but the products had not changed much. They are standard for all. By 2025, banks, however, will have digitalized to personalize banking for you and your SME. Your bank will know more about your business than you do. Your bank will use your data, and similar businesses and other value chain data points to understand and predict your business needs better and faster than you could, giving truly personalized products and services.

The bank for plumbers will tell you if your mark up on parts is too high/low; if your call out fee is prohibitive; if your parts are not lasting long enough and you need a change in supplier; if your supplier is too expensive for what you are getting; if your wage bill is too high/low; if your staff turnover is too high/low; whether you do more/less call outs per day/week than other plumbers; the optimal number of vehicles. Your bank will answer the questions you didn’t even know you had. This way, niche banks will serve bakeries, doctors, electricians, mom and pop shops, electricians, e-hailing drivers, accountants; and all the new fields we don’t dream about yet.

This means that your SME bank will use data insights, together with gamification, to change your behavior, increase the health of your business and reduce your business risk and ultimately the risk of lending to you. It will set weekly targets, reward you for good ‘behavior’, and place your performance within the context of the broader economic conditions (you might get rewarded for scraping by in tough economic times). Your bank does not strive to bank you - it strives to solve your problems (managing liquidity; stock management; CRM; employee retention and satisfaction). It will even recommend services that it can’t offer to you but are the best available on the market. Your bank will also provide data on “companies like mine” such as e.g. rent as a % of total costs; staff as a % of total costs; tax paid as a % of revenue; accounting fees as a % of revenue.

Embedded and integrated, SME banks of 2025 will remove challenges SMEs face by i) being embedded in the processes that enable businesses to operate (stock management system, accounting system, ordering system, invoice system, HR system, accept payments), and ii) integrating all of those systems, and the data therein, through one interface. Your bank will offer an interface but will be equally comfortable delivering data into the interface third party providers. The SME will choose the interface to use based on internal ratings system- the bank will compete to be that interface but will need to plug into others to meet customer needs.

Most importantly, your bank will operate in the backend. Banks will give businesses less to do by automating all the processes they can – paying taxes, paying salaries, reimbursing expenses. SMEs will approve and manage exceptions. This way, SMEs will never fill in forms. The only step in applying for finance will be consent to the sharing of data - one screen that outlines the precise type of data to be shared, the partners it will be shared with, how those parties with use the data and for how long. This consent will be easily revocable – and likely based on blockchain ledger. Many of these services are coming already – by 2025, they will be commonplace. By 2030, SME banks will recognize that SMEs are not generic and cannot be treated as generic. The best banks will offer the above basics and provide an open architecture – not APIs but a real open architecture – that allows third party entities to build, thereby creating communities and allowing communities to build on to more communities.

Some key services:

Artificial intelligence: The bank will use AI to predict liquidity crunches for individual SMEs and for SME sectors/clusters. Integrations with invoicing systems, accounting systems, tax systems, e-commerce platforms mean that banks will be able to predict a likely shortfall and give management options to address those (e.g. a range of pre-approved and priced overdraft offers; option to send follow up emails to those owing money) AI will manage surplus funding - allocating funds to 7-day or 30 day call accounts; putting money aside for upcoming tax payments on a monthly basis; setting aside money for bonuses etc. It will also propose shifting of funds between more/less costly loan accounts - paying more expensive debt off first.

Risk management: The mindset will change whereby the bank
will help the business understand its risk so that credit scoring as
a business will be eliminated since the bank is helping the SME
manage the business risk. Good banks will provide focused
insight into the risk of new counterparts. If an SME takes on a
new client, for example, the bank will give an indicator of risk
of non-payment (e.g. considering information it has access to
- such as bank account information; age of company; reported
earnings). Moreover, your bank will help identify characteristics
of successful business, highlighting differences between what
successful businesses typically look like and your business.

Payments: Your bank will advise you the best way to make a
payment. You might prefer to direct the bank to pay X, with the
AI engine making a recommendation on how best to make that
payment. Examples are for offshore payments use X; for time
sensitive payments use Y.

Startups: The 2030 bank will make it easy for new businesses to
come on board. This will include registering the business, opening
the right type of bank account with the right types of freemium
pricing (only paying once passing a revenue threshold), and
offering templates from HR contracts; accounting templates;
confidentiality agreements; leasing agreements; founders
agreement. Many of these services are coming already – by
2030, they will be the basics on which banking is provided.

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Raja Debnath, Rachel Freeman: Big Tech Takes Over

Future of SME Finance in 2030 - Big Tech will rule in 2030

Raja Freeman, Tyme Global & Raja Debnath, Cogence Labs

In 2020s, the platforms came for the banks, and the banks, hit hard from pandemic-related bad debt portfolios, never recovered. Demonstrating their power and flush with cash from the coronavirus period, platforms became the trusted entities that served as lifelines to consumers and SMEs. By 2030, digital and the smartphone and its successors rule the world. Life has become data driven and data controlled. Your driverless car, your taxes, all provide data – and those nimble and unencumbered will get products out first, while banks, weighed down by reduced capital and high compliance and regulation, cannot react to the multiple data silos and thus continue to lose out to the big tech platforms.

Our 2030 world is very different. Data will drive everything with network effects in everything, creating winner takes Most or All markets. In these markets, three financial players will survive – i) big tech, who will embed financial services within their products and customer journeys; ii) global financial institutions that acqui-hire smaller players; and iii) the global loan sharks. Partnering with FinTechs will ultimately collapse as the tech players will overpower the banks once they acquire scale. Those looking for collaboration will lose out to the leading players that prefer acquisition over partnership. Global financial institutions will fall out of the consumer and SME businesses and become the bankers to the platforms, handling regulatory and reporting for them.

For SMEs, finance will come from the super platforms. Google, Amazon, Apple, Xiaomi, Alibaba, Jio players – all flush with capital from the pandemic – will rule finance. They will have enough data on customers along with AI skills to build models to better score SME customers. SMEs will flourish with finance. Their financing will be on tap at the point of demand, whether while purchasing a machine or drawing an overdraft for paying salaries or swiping the card at Staples. AI models trained on TBs of data will provide Credit.

And the ones who cannot secure credit through these mechanisms will become second class groups, served by global loan sharks. The loan shark market will grow substantially to meet the need of the nondigitally connected SME. Because of improved credit bureau reporting, FinTechs giving small loans to SMEs in the 2017-2020 period and then being hit by COVID, the pool of borrowers who will not be eligible for formal financing will grow substantially, following mass small business closures and unemployment from the coronavirus period. These loan sharks or loan shark conglomerates will also be disrupters and innovators and by doing so will consolidate the market, increase their shares and lend at much higher interest rates. Some SMEs will be forced to go to these institutions, but ultimately the interest rate will consume them.

For the big techs, the 2020s will be a transition period where new industries will come in and old ones will shrink. With the destruction of mainly monoline larger businesses at the hands, Big Tech and Tech-enabled Conglomerates, the gig economy will become substantial in size, with larger and larger numbers self-employed. Entire industry supply chains will be uprooted; for example, 3D printers will put the logistics business under pressure. 3D printed food at home will impact restaurants, already in trouble following the pandemic. But the businesses that appear will not be easily categorized – and the difference between consumer finance and SME finance will shrink. Banks that cannot adapt easily will not be able to nimbly meet these needs, ceding more ground to the big techs. Big techs will be the ones to lead SMEs. Captive relationships and financing will dominate. Similar to Amazon’s merchant advance product, SMEs will be dependent on their leading big tech relationship for customers, data, finance and growth. In a modern feudalistic structure, SMEs will cluster with their platforms, transacting among themselves, and the platforms will oversee cross platform engagement and transactions.

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Robert Scheunpflug: SME Lending in 2030 – The China Perspective

Till today, SME lending in China is traditionally done by two different groups of financial institutions: micro credit companies (MCC) and local banks, such as city commercial banks or rural commercial banks. Both have in common that they are often restricted to a specific region, like a city, a county, and – the bigger ones – a province. That leads to a patchwork of thousands of different lenders, with many white spots on the map. If you look today for a loan product suitable for a small or middle-sized business in a 4th tier Chinese city, you might often not find an offer, beside of a traditional collateralized loan from a large state bank – not necessarily fitting the requirements of a small business.

Under the pressure of consumer finance
Already several years ago, these classical lenders started to get under growing pressure by nation-wide digital consumer products provided by China’s leading internet finance giants like Alibaba or Tencent. Loan amounts up to USD 10,000 are increasingly easy to get, equally like credit cards with a similar limit. This is putting the lower fringes of business lending under pressure. However, credit loans for higher loan amounts – and in China, small factories, restaurant owners or logistic companies are often in need of loans up to hundreds of thousands USD – remain difficult to get. In future, a sharper differentiation between consumer loans to individuals based on behavioral data, and business loans, based on the ability to understand an individual business capacity, will emerge.

The future is data driven – by whom?
It is a commonplace that especially in China the future of finance is driven by Big Data and AI. However, in the field of SME lending, this truism is worth a second look. Two basic facts are slowing down the walkover of internet finance, shaping the “Chinese characteristics” of financial Digitalization.

First, the high informality of small businesses in China will not go away easily in the next years. While more and more third-party data are available online, this cacophony of data is not necessarily leading to more transparency – understanding the financials of a business is meeting its limitations. As today, also in ten years a financial analysis will still require a loan officer to visit the loan applicant and to confirm key information like ownership authentication or asset items of the business.

Second, the regulatory landscape will not change easily, and there will be still a high number of locally restricted lenders, such as rural banks or micro credit companies. The more nation-wide big data companies are perfecting consumer finance, the more local banks are in need to push into the area of SME lending and to develop better targeted products for them: credit loans with loan amounts up to hundred thousand USD, credit lines, and faster and more efficient underwriting processes. In this field, local banks will still have the competitive advantage to be close with their staff and their branches to the SME customer base - what matters additionally for loan collection and repayment management. However, at the same time such local players have difficulties in realizing the chances of big-data-driven Lending.

Leaping into the cloud
Therefore, in the next ten years SME lending in China will see a rise of solutions that will make available the potential of big data to local financial institutions, by the same time underlying their unique selling point – to be close to the client – by aggregating these online available data with manually collected information, resulting in a highly specialized online/offline loan processing approach. The limitations of local financial institutions when it comes to digitalization will favor the development of cloud-based technology solutions provided by third parties. While not competing with each other, local rural banks and MCCs will share platforms, technology and even benefit from pooling their client data. As financial data will become more transparent, FinTechs will develop around data analytics and-security, and will offer services like benchmarking or document processing Automatization.

Minimizing all manual work
Already today, there are several platform providers that enable local banks to serve SME clients with comparatively high loan amounts. The more lending over such platforms is gaining momentum in terms of user banks and portfolio disbursed, those loan pipelines are developing into smart systems, automatically aggregating transaction data from banks, online available third-party data information, and selected manually collected client information. FinTechs are increasingly offering credit decisions, benchmark data, monitoring tools and
cross-checking solutions for the highly informal SME segment. Already now existing AI applications for phone analysis or decision making will become increasingly sophisticated. In this way, financial institutions are able to reduce manual processing from their side to very short, concise and efficient interventions. For an increasing number of SME clients, already today it is possible to get a loan decision within seconds.

**Grey areas in data protection regulation**
The first emerging players in the field of cloud-based lending platforms have survived their baptism of fire during the CoVid-19 pandemic with a stable and well performing loan portfolio. However, there are still many challenges in terms of regulation of data exchange and an unclear regulatory environment that is partly hindering, but partly also supporting banks in exchanging data with third party technology providers. Those who are now pushing into this field might be even able of shaping the future regulation to their benefit. To put it into a nutshell: The development of SME lending in China is shaped by the regulatory environment that will have local players increasingly focusing on this customer segment. Because of their inability to develop own digital solutions, FinTech providers will increasingly provide cloud-based platform solutions with a high degree in automatization, data analytics and AI applications.

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All around the world, the majority of SMEs access finance through debt. While serving a critical function, debt financing for SMEs also has limitations. On the one hand, debt is poorly suited to incentivizing innovative or lumpy investments with uncertain payoffs. At the same time, it prevents investors from capturing the returns of a market segment which has demonstrated impressive growth: a recent World Bank analysis of female-owned SMEs in East Africa, for example, showed an average annual growth of 350% for the top decile of companies.

This is where performance-based lending comes in. Financial instruments such as ‘microequity’ (or revenue-based products) combine some characteristics of a traditional loan - regular payments over a fixed period of time – with the performance-based payouts of equity financing. Several recent field experiments – from Sri Lanka to Nigeria – have borne out the potential of micro-equity contracts (ex. McKenzie 2019; Meki 2019; Quinn 2020) The borrower makes periodic payments which comprise a principal component (which can be zero) as well as a percentage of the period’s revenue or profits. If the firm performs well, the investor reaps part of the returns; if it does badly, the investor absorbs some of the losses. This protects the investee against unforeseen shocks (think: COVID) while allowing the lender to cash in on successful bets. Since there is no transfer of ownership rights, the model works just as well for a sole proprietorship as it does for a partnership or share company.

There are added advantages to performance-based lending. The focus on ‘capturing the upside’ means that lenders can dispense with traditional collateral. Potential investees are thus assessed on their future potential rather than their current assets - which is good news for young firms with limited capital stock. Since women tend to be disadvantaged in accessing traditional collateral, performance-based lending also increases their slice of the pie. And because it does not rely on traditional interest, performance-based lending can easily be made sharia-compliant for Muslim communities (in fact, contracts of this nature are similar to the existing concept of ‘musharaka’ in Islamic finance). Revenue-based financing is not new, and there are reasons why it never took off as a funding mechanism for SMEs in emerging markets. However, we believe this is about to change. Three trends are clearing away old obstacles and will make ‘microequity’ investments much more viable by 2030:

1. Digital payments make tracking revenue a cinch. In a cash-based economy, assessing an investee’s income is cumbersome, costly, and prone to manipulation. Digital payments, on the other hand, are easy to account for and simple to verify.

2. Data analytics is giving us new insights into the growth trajectory of SMEs. Estimating the potential of small businesses is tricky in information-poor markets. However, the data on SMEs in developing countries is growing, and advances in analytics - such as machine learning - are giving us a more granular picture of the industries poised for success.

3. Competitive pressure is instilling a ‘growth mindset’ in both businesses and financial institutions. Not every clothing store dreams of being the next mega-retailer, nor does every microfinance lender aspire to deal in venture capital. But with markets becoming less territorial and more competitive, new opportunities are opening up to those who do.

In fact, we can already see performance-based lending pick up in places where these developments are further along: the growth of revenue-based finance firms for software companies, such as like Lighter Capital in the United States, is one example, as is the trend of e-commerce platforms like Jumia harnessing firm-level sales data to branch out into lending.

Our team at the World Bank and IFC is now bringing this business model to SMEs in emerging markets. Together with local partners we are developing the tools needed to bring revenue-based finance to small business owners - and to women entrepreneurs in particular. We have developed a financial model to price microequity contracts and simulate their performance over time, and we are wrapping up the design of an enterprise app that tracks a firm’s revenue and provides business insights. Most interestingly, perhaps, a ‘growth algorithm’ we are developing has shown significant
success in predicting the likelihood of an SME to grow over time. Together, we believe, these innovations could change the face of SME finance and growth.

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Technology firms like Apple, Samsung, Huawei, etc. most frequently advertise new hi-tech phones on the market, which often promise exciting customer experience to users. Sooner, you would hear about new versions of mobile internet platforms introduced and managed by the GSMA. These platforms which include, EDGE, H+, 3G and 4G/LTE, assure phone users speedy and unfettered access to mobile internet connectivity anywhere and everywhere on the globe. The recent introduction of 5G platform in some markets seeks to provide high-speed mobile internet connectivity to business and corporate users. To complement these developments, several submarine fiber-optic-cable projects are underway in some regions, with sole aim of ensuring reliable mobile internet connectivity. 2Africa Submarine Project connecting Africa and Middle East is no mean example. In fact, the GSMA predicts global mobile internet penetration index to hit 66% (from current 47%) of the total smart phone adoption by 2025, a prediction which COVID-19 pandemic has ably accelerated. Obviously and deductively, there is every reason to posit that, banks cannot continue to serve customers with the traditional brick and mortar approach, especially in the coming decades. A constructive paradigm shift is therefore a must.

In the coming decade, customers expect banks to synchronize and condense their banking needs onto their smart phones for convenience, agility and excitement. But the “billion-dollar” question is; are incumbent banks ready? As mobile phones innovations accelerate, coupled with ubiquity of cheap mobile internet connectivity, phone banking (with Apps/USSDs) must obviously be the consideration for SME financing.

Traditionally, SME financing is provided by financial institutions, most of which do so via bricks and mortar channels. These traditional channels have always come with unintended challenges of convenience and agility to customers. Other challenges include transparency and transaction cost. It is against this background that customers seek better experience in banking, an experience which smart phones promise to offer via digital approach. FinTechs offer nimble digital solutions to SMEs mostly via phones, in areas like payments, lending, savings, insurance, financial management etc. These solutions are usually embedded with AI and Machine Learning (ML) technologies, which provide agile and accurate deliverables, compared to the traditional channels. AI & ML technologies perform several functions including, data mining and analysis, decision making, planning, and voice recognition, all of which are contextualized in banking.

The 2019 EY global financial services survey revealed that, 25% of global SMEs are fully utilizing FinTechs solutions for daily business activities. It added that, 22% more SMEs have partially adopted FinTech services, with projection that more SMEs could easily join the train. FinTechs adoption has recently gained momentous international traction and funding, especially in emerging markets like Asia, with China as epicenter. In Europe, FinTech market is growing, but with uneven distribution (IMF 2019). In the US, “the market has attracted considerable amount of funding” (Baker McKenzie). In Sub-Sahara Africa however, FinTech adoption has not gained sensational headlines compared to Mobile Money services offered by Telcos, where SMEs are offered services like payments, lending, transfers and remittances.

But the story is not all about FinTechs and Telcos. Big Techs, such as Amazon, Facebook, Apple, and Google are also notable players in the ecosystem. Big Techs have larger customer base, vast data-user pools, agile technology platforms and deep funding pockets. They can create all sorts of services for users at cheaper cost. The Chinese Bigtech firms, Baidu and Alibaba have already made significant inroads in China’s digital finance landscape. Amazon for example, has several online payments and money transfer services that allow online shoppers to initiate payments instantly. It also offers online lending and swipe fee services. Google recently introduced business-App in India via Googlepay, which allows SMEs to apply loans online. Apple’s “Siri” and Amazon’s “Alexa” are AI-enabled voice recognition software capable of performing voice banking. For example, you could ask “Siri”; “How much do I have in my account today? “Siri” would reply you with voice details accurately. This is indeed imminent threat to incumbents.

The current evolution sweeping through the financial ecosystem is expected to extend into next decade and even beyond, with the following marked predictions by 2030:

1. Easy on-boarding: Customers shall own bank account,
initiate loan applications, and perform electronic-signature for contracts conveniently with phones via Apps/USSDs. Also, voice banking and “Chatbots” shall ably perform customer service functions.

2. Lending via Robotic Process Automation (RPA): RPA is able to undertake repetitive processes faster and more accurately than humans could. By 2030 RPA shall extract large data on customers for analysis for rapid lending decisions, thereby increasing loan disbursements to SMEs. This would narrow the SMEs financing gap drastically. RPA shall also replace loan officers in many functions.

3. Data Analytics & Risk Management: AI-enabled technologies such as Cognitive Process Automation (CPA) shall largely be adopted for large data mining and analysis. CPA analysis provides better understanding for SMEs risk profiling and management. Proper risk management would enhance credit expansion to SMEs.

4. Governmental Policies & Regulations: Indeed, the current evolution in the financial ecosystem is moving faster pace than regulators could adapt. However regulatory institutions worldwide are speeding up with mechanisms to regulate and monitor the novel digital market. By 2030 governmental policies and regulations shall tilt favorably towards digital agenda, giving reason for more players to enter the ecosystem. At the same time however, regulators shall not compromise on regulation requirements, which shall propel partnerships among players. These new partnerships would require cross-authority regulation for effective monitoring.

5. Partnerships & Acquisition: Smaller incumbent banks shall mostly partner FinTechs and Telcos, whilst bigger banks shall in some instances acquire start-up FinTechs. Bigger FinTechs will acquire smaller FinTechs to deliver agile solutions. Bigtechs shall pose huge existential threats to incumbent banks, but FinTechs shall dominate e-payments sub-sector. Indeed, the future of SME financing looks exciting, all pivoted on the fulcrums of digitization. It therefore makes more sense to invest in technology now rather than physical branch... what are you waiting for?

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INSTITUTIONAL INNOVATION
Small and medium sized enterprises (SMEs) continue to require well structured, intelligent, cost effective, and flexible financial services. The consequences of the pandemic will only emphasize these requirements. In all regions, business activities will adjust. Less white-collar workers will commute to their offices, retail will shift more to online shopping, requiring less stores but more transportation. Health and safety will be an area of increased investment activities. SMEs need to take more risks and higher financial exposures to overcome the economic downturn and to rebuild the business in a changed environment. SME financing will be driven by four key trends:

- Knowledge
- Relationships
- Efficiency
- Partnering

We still see a strong role for established financial institutions to play in the provisioning of financial services. This requires an adjustment of their business model with the mentioned four key trends in mind. Other service providers will emerge, either offering complementary services and partnerships with those institutions or trying to establish themselves as alternatives. Knowledge, both formal/informal, qualitative/quantitative, will be a key to provide better services to SMEs. Successful financial institutions will hire sector experts to better service their clients and use knowledge management systems to collect and accurately assess all the quality of knowledge from interacting with clients. Generally, every conversation with a client, every field visit, and every observation create proprietary knowledge about the client. A good system collects the data, combines it with performance assessment (vintage analysis and migration tables) as well as potential external sources. SME entrepreneurs on the other hand will appreciate the experience provided through a financial institution, especially as they would like to focus on the business activities and leave the financial side to experts.

Relationships will play a stronger role than implied during the appearance and first growth phase of fin-tech companies. The pandemic illustrated very well that knowledge about a client, understanding their needs but also being able to differentiate inability and unwillingness to service loans is a traditionally underestimated skill. As financial institutions have to reassess their client relationships, this personal experience and trust through a long-term relationship will be a deciding success factor. SME entrepreneurs will rely on those financial institutions with demonstrated to be available for them during the crisis. Here, it is important not to mix up the lack of personal interaction due to a temporary lock down with the lack of a relationship at all. The last weeks have shown that remote collaboration can be easier if it is happening between partners who know and rely on each other. While knowledge and relationship are built on a rather costly human resources, the demand for efficient financial services will increase. SME entrepreneurs do rely on the personal advice when making investment decisions but require efficiency and automation where possible. Cash management, payroll services, trade finance, short term working capital lines and other products need to be automated. Here, financial institutions can collaborate/integrate/replicate services offered by Fintech companies. While Fintech companies have proven the case for efficiency and digitization, their lack of established client relationships and traditionally their suboptimal approach to funding their loan portfolio will continue to threaten their model.

The pandemic will emphasize the advantages of local and regional financial institutions with regards to relationships and knowledge, but also exposes their weakness with regards solvency. The crisis will erase large shares of their core capital, this will reduce their risk appetite and thus become an obstacle in the re-building phase. Institutions will partner with investors through risk sharing. SME focused local and regional financial institutions are best to originate business, third-party funds and external investors are better positioned to take on the financial risk. Risk sharing models, such as loan funds, guarantees, structured loan participations will emerge. Investors will participate in adequately priced credit exposure to SMEs. As a result, we will see the following developments: Financial institutions will integrate technology solutions better. Fintech companies have demonstrated the benefits of an online business in the environment of the pandemic, their lack of proximity and lack of ability to leverage their own balance sheet will drive them more towards collaboration/integration with traditional service providers. Investors will develop risk sharing mechanisms through...
funds, funded deposits, and related products, allowing them to participate in the credit risk of the underlying exposures. This will help the financial institutions to overcome their post-pandemic lack of risk appetite. It will reduce the capital requirements allowing the local institutions to focus more on origination as their key strength. Through risk participations or first loss structures interests will be aligned.

Assessment methodologies, such as machine learning or artificial intelligence will increase their role in the financial sector, but more in a supporting, rather than replacing role. Such instruments will provide monitoring (early warning systems) and decision support. They will also facilitate the interaction with clients through targeted marketing and services.

Technology investments. In the past, financial institutions invested into software solutions. This was replaced by software as a service. The next trend will be the use of low code/no code platforms. Efficiency improvements will no longer be a top-down process where management invests and requests institutions to adapt. Rather, staff will be able to improve efficiencies directly through the development of workflows and in processing mechanisms on relatively simple low code platforms.

In summary, in 10 years we will still see traditional financial institutions or service providers acting as the face towards clients. Their business model will be different, their revenues will rely less on interest income and risk taking but rather on fees. They will become more of a platform for an array of other providers collaborating with institutions in revenue/risk sharing models. This will also facilitate the post-pandemic recovery effort, especially in emerging markets where the effects will probably be longer and significant than in developed countries.

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The world is changing rapidly. The next decade during 2020-2030 will bring a lot of new challenges to the governments and small and medium enterprises (SMEs) worldwide. The start of the decade has been met with escalation in trade tensions, steadily declining growth of global trade, macroeconomic uncertainties alongside with tightening credit conditions. On top of that, global supply chains have seen an unprecedented pressure due to spread of Covid-19 pandemics. All these factors will be impacting the SME businesses for the years to come.

It is important to understand the scope and importance of SMEs, where by 2020 European Union counts more than 25 million of these enterprises. Comparatively, United States has more than 30 million and China - more than 40 million. There is a high level of expectation entrusted to these businesses. According to the World Bank estimates, more than 600 Million jobs are needed by 2035 to be able to sufficiently cover the demand side for the youth entering the labour market. When it comes to job creation, SMEs are the driving force as it provides for over 50% employment opportunities globally.

Despite this, majority of these small to medium sized enterprises are facing numerous challenges worldwide. In the current environment, liquidity shortages would become more and more common among the smaller corporate entities. Across the banking industry, financial institutions tend to become more risk averse, demanding collateral as a prerequisite for the financing. Large corporate institutions are simply better equipped to satisfy this requirement, and therefore have better chances to secure appropriate levels of funding. Among other challenges are non-performing loans (NPLs), which are more frequently occurring among SMEs. Current low interest rate environment may seem as ideal for them, however overall expectation remains that further decreases in the interest rates would not result in higher borrowing activity. There is no significant correlation between SME credit volumes and interest rates. As a result of this, monetary policy alone is not expected to add any further significant value to stimulate bank lending within even lower interest rate environment.

What could help SMEs by 2030? A gradual decrease in collateral requirements could help, though inevitably will require third-party pledge or (state) guarantees. Pledge of collateral is directly linked with the interest rate that SME businesses could expect on their business loans. Decrease of collateral requirements requires a well-coordinated approach from the governments and its Central Banks. By 2030, governments are expected to step in and play a more active role in simplifying the access conditions and requirements to obtain state guarantees for wider spectrum of start-ups and mid-caps on ongoing basis. This could enable newly formed businesses to obtain wider access to financing through banks and other financial institutions.

Private debt instrument for SME financing is expected to get more attention by 2030. During previous years more than 60% of the volumes have been raised in US, with over 30% in Europe. Asian private debt market is still very small in comparison; however, Asia has been more active in online alternative finance platforms with P2P lending, which, subject to further governments’ support, has all the chances to gain recognition in wider set of countries by 2030.

Payment delays can be destructive for small and mid-sized businesses, especially during the periods of macroeconomic uncertainty. Governments have to continue monitoring closely the implemented norms between the companies. Product alternatives such as factoring would be expected to remain high on agenda by 2030 and could transform to a faster and completely digital processes as financing alternative, being especially of interest for those SME businesses with frequent account receivable flows.

Furthermore, Basel III standards as implemented during previous decade and “Supporting Factor” on reduction of capital requirements for SME loans need to be continuously assessed and monitored for adequacy to encourage financial sector lending into this segment. The so-called challenger Banks movement is expected to continue to develop its competitive advantage and SME market share during the next decade. A few examples include Australia’s Volt Bank, Germany’s N26, Dutch Bunq, Chinese WeBank, Korea’s Kakao Bank. Such challenger banks provide most of their services online and demonstrated...
their emphasis on SMEs among their main focus groups. More economies should aim to support such initiatives.

In conclusion, governments have to continue their policy efforts to protect SMEs. During years 2020 - 2030 a three-dimensional change should be promoted, including reduction of regulatory burden, improved access to financing and advancement in digitalization. The goals set by the world community are ambitious. A lot is expected to change, however by 2030 SMEs will continue to depend on access to external sources of finance in order to meet their cash flow requirements for growth and development. This decade is rightfully called an ‘action decade’ and current environment forms a true test for SME companies to survive and emerge as more powerful from 2030 onwards.

Sources

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Gabriel Bizama: Digital retail investing propelling MSMEs’ resilience against climate change

By 2030, small businesses all the way through microenterprises will be accessing affordable credit through the capital markets for the green transformation of their businesses, leveraging the potential scale of digital retail investment products.

Let’s take the case of the agriculture sector. Due to a growing global population with shifting consumption patterns, 60% more food will be required by 2050 (1). The agriculture sector generates one of the highest levels of green-house gas emissions. Currently, most of the finance flowing to agricultural MSMEs are short-term in nature, given that it is tied to the commodity or product (2). Now, let’s imagine agriculture and food-related microenterprises having the possibility to issue long-term simplified bonds with low interest rates by leveraging the use of innovative technology, allowing for sustainable innovation at the microenterprise level and beyond.

2030 is not another year. In 2030, the UN Sustainable Development Goals are due to be met, contributing to achieving the Paris Agreement commitments and leaving no one behind. Estimates by the OECD pointed to US$ 6.9 trillion yearly needed between 2016 and 2030 to finance the transition to a low-carbon economy (3). UNEP’s 2019 Emissions Gap report shows that we are far from getting there (4). Through their participation in global value chains, MSMEs play a substantial role in driving the impact of climate change.

It is not a novelty to say that MSMEs struggle to access lending. Around 80 percent of total MSMEs are informal (5). These firms face a number of challenges that can negatively impact their operations and growth (6). Lack of access to finance is consistently reported as the biggest obstacle among these challenges (7). The potential demand for MSME finance in developing economies is estimated at US$ 8.9 trillion, compared to the current credit supply of US$ 3.7 trillion (8). Under this context, accessing climate smart finance solutions to become resilient to climate risks appears as farfetched or out of reach for many MSMEs.

The growing investors’ demand and consumer appetite for retail digital investment products has started to lighten up a plausible path forward. The unbanked are already accessing the capital markets through the offer of innovative solutions such as digital wallets. FinTechs are designing products that give consumers the possibility of investing the cash balance they have in their e-wallets on mutual funds. Alipay has been at the forefront in this space in China. MercadoPago is revolutionising the access to investments accounts in Latin America. In Argentina, it reached 1.5 million investment account openings after two years since the launch of the product, up from the existing 400 thousand in the market prior to this offer. When expanding to Mexico, after one week they had opened 100 thousand accounts. TransferWise has recently announced the creation of this type of investments product as well. And this is just part of the story. Digital technologies (e.g. artificial intelligence, automation, Internet of Things, distributed technology ledger) can well collaborate filling information gaps in order to efficiently promote the access to capital markets by MSMEs.

More importantly, these solutions would give consumers a variety of investment options that better align with their environmental concerns and contribute to close the investment gap for a timely sustainable and low-carbon transition. For example, consumers are now able to acquire financial products that help reducing carbon emissions with Ant Forest, EcoTrees, Bunq, among others. However, there still remains a lack of offer on financial investment products which are not connected to tree-planting initiatives. Furthermore, these products can help generate incentives for more sustainable production across MSMEs from different economic sectors – clothing garment, real estate, transport, energy, among others. Such reality is resonating in younger generations, for whom the implications of climate change are increasingly part of daily and public affairs.

In order to foster the development of the 21st century capital markets in support of the creation of tailored green investment products, policymakers and regulators could a) create the appropriate financial and non-financial incentives such as tax rebates; b) adjust the regulatory framework to achieve a simplified verification, identification and onboarding of new customers demanding green investment products; c) promote and foster innovation in the financial sector with a focus of climate finance; d) foster sharing of timely and accurate data to reduce climate risks; e) promote awareness and capacity building tools on the impact of climate risks and available financial solutions to mitigate them.
The private financial sector could focus its efforts on a) improving the users’ experiences and design new retail green investment products; b) embedding financial education on the customer experience so terms and conditions are easily understood by vulnerable groups which may be not be used to transact digitally; and c) enhancing their financial solutions to continue reducing transactional costs and foster affordability.

Across regions, new data shows that customers are quickly embracing digital solutions for their transactions and demanding tailored-made green financial products. This is a unique opportunity for MSMEs accessing to lending as much as for the sustainable economic transition.

End notes
(1) CGIAR, 2017.
(2) Global Partnership for Financial Inclusion (2017), Policy Paper on Climate Smart Finance, for Rural MSMEs: Enabling Policy Frameworks.
(6) Ibid.
(7) World Bank Enterprise Surveys.
Small and Medium Enterprises (SMEs) will continue to play an important role in economic development, innovation and job creation in the next decade. Given the current economic deceleration caused by COVID-19 pandemic, their role would be much more vital in restoring economic growth in developing countries. Despite an integral part of the economy, SMEs struggle to get credit from formal system, the problem is more severe in developing economies.

1. Possible credit gap in formal SMEs

In terms of IFC study on Micro, Small and Medium Enterprises (MSME) Finance Gap, 2017, there were 162 million formal MSMEs in 128 developing countries and these countries together had MSME finance gap at $5.2 trillion annually. In recent past, developing nations have taken steps to promote formalisation, innovation and access of credit in SMEs. For instance, in June 2020, India made registration, a mandatory criterion for classification of an enterprise as MSME. In Indonesia, the government facilitates subsided loans and government-backed credit guarantees for registered micro and small enterprises. Such measures taken by these countries will increase formal SMEs in coming decade and flow of finance will also increase in the segment due to emergence of FinTech companies and evolving partnership between banks and FinTech. However, rate of increase of formal MSMEs will prevail over the rate of supply of finance due to underdeveloped credit infrastructures viz. collateral registries, credit bureaus, insolvency law, etc.

2. Providers of SME financing in 2030

2.1. In developing countries, SMEs generally rely on retained earnings over external finance. Stringent borrowings norms of banks, lack of collateral security, information asymmetry and lack of access to credit are some of the factors contributing to high level of self-funding. From supply side, SMEs are perceived as riskier segment to lend due to uncertain cash flows, unavailability of historical data, lack or limited availability of sovereign credit guarantee, underdeveloped financial infrastructures viz. collateral registry, credit bureaus, insolvency law, etc. 2.2. Banks have predominant share in lending to SMEs in developing nations. However, over the past few years, the share of banks, particularly those lagging behind in deploying technologies in lending process, is decreasing while share of Non-Bank Financial Companies (NBFCs) with robust financial technology has been increasing. In next decade, FinTech companies will play a crucial role in customer acquisition, cost reduction, risk mitigation and faster disposal of loan applications. In order to remain competitive in SME lending space, traditional banks have started deploying newer technologies and partnering with FinTech companies. In near term, FinTech oriented NBFCs may cause disruption in SME lending but banks having wider presence, strong customer base and access to newer technology will continue to dominate SME lending in 2030.

3. Usage of surrogate data in SME lending

Many of the developing countries are in the phase of digital revolution which has led to increase in economic activity through internet. Usage of e-commerce for sales and digital modes of payment have increased. This has led to availability of alternate data for credit scoring and assessment. In order to enable lenders take informed decision for lending to SMEs, developing countries would realise the importance to map these alternate data. Japan’s credit risk database could be a potential model for developing nations in usage of alternative data in SME credit analysis. Such database will potentially reduce the incidence of defaults and give comfort to regulators for reducing capital risk weight in SME segment. India is in the process of establishing Public Credit Registry which apart from credit information, has been envisaged to contain information relating to tax and utility payments. In next decade, other developing nations, which do not have Public Credit Registry, will also make progress towards establishing such a registry.

4. Role of Block Chain and Machine Learning in improving SME financing

4.1. Asian Development Bank has estimated that SMEs in
Asia face an annual trade financing gap of $150 billion. Different trading currencies, less harmonised laws and standards, involvement of various intermediaries between buyer and seller restricts growth of trade finance. By 2030, distributed ledger technology will be used to streamline the process of goods delivery, reduce the transaction time and increase transparency, accuracy and trust. Application of block chain in letter of credit-based lending significantly reduce execution time of transaction. Barclays claims to have issued the first block chain-based letter of credit in 2016, executing a transaction that normally takes up to 10 days in under 4 hours (Kelly 2016).

4.2. Automation of manual work like loan contracting, Know Your Customer (KYC) process and compliance will reduce turnaround time and cost for lenders. The use of machine learning has significantly reduced legal costs for JP Morgan (Son, 2017). In next decade, cross-country opening up of national repositories containing KYC and credit related information will boost receivable financing in SME segment.

5. Role of Government and Regulators

5.1. Developing countries have been using credit guarantee and directed lending as a tool for enabling flow of finance to SMEs, largely through government owned banks. It can be argued that government intervention through risk sharing and target-based lending have a limited effect since lending is based on credit worthiness of enterprises and commercial judgement of lending institutions.

5.2. In the coming decade, SMEs will be a focus area for governments, regulators and policy makers. These stakeholders will endeavour for strengthening legal, regulatory and institutional infrastructure to create a facilitative environment for SME financing. The future policies will aim at addressing information asymmetry by creating a robust and reliable information sharing mechanism in the form public credit registry, improving insolvency regime for SMEs, increasing formalisation and innovation in the sector. Facilitative steps by Government and Regulators in exploration of newer methods of lending, product and process innovation through regulatory sandbox and partnership between banks and FinTech companies will increase financing to SMEs with reduced risk, cost and time.
Giuseppe Argirò, Lenka Sýkora: What will the European SME lending market look like in ten years?

In the past years we have experienced a burst of innovation in the financial industry. Today, the SME lending market is attempting to meet the challenges resulting from the global pandemic. Lives have been disrupted on a scale that nobody could have anticipated. If digitalization is the way to meet new business demands, can we expect a fully mature digitalized lending market in 2030 with credit providers and SMEs really and effectively involved?

The digitalization of financial services for business customers trails behind retail solutions. So, there are huge opportunities in the SME segment, which is a fundamental part of the Economic European ecosystem, employing more than 66% of the workforce and comprising more than 56% of the EU economy (1). In the next ten years, the number of SMEs could increase by 16% compared to 2017 (2), thus increasing the demand for financing.

However, SMEs are also the most vulnerable part of the ecosystem as barely half of them survive their 5th year of existence (3). This vulnerability increases significantly as a result of their size and fragmentation, as well as the complexity of their needs. Lack of internal skills and insufficient cash tend to slow down the adoption of business digital solutions which are essential for surviving the emergency. Only 34% of SMEs have adopted Enterprise Resource Planning systems (4), while only 3% took advantage of analysing their own Big Data in 2017 (5). The digital lag of SMEs prevents them from reaching customers remotely and therefore challenges the sustainability of traditional business models.

That said, we will focus on three main challenges and/or opportunities that might shape the future of SMEs and the lending market:

1. Alternative lending
2. Technology
3. Open banking

Alternative lending

Whether today or in 10 years, credit providers will always be essential to the restoration of economies caused by crisis. After a phase of easy money from Governments, Banks could eventually apply even stricter criteria for accessing credit to avoid an increase of non-performing loans. An increase in the loan rejection rate will hence push SMEs to look for alternative lending, while also re-evaluating their business models. In recent years, many FinTechs have entered the lending market, pushing the advantages of speed and service simplification. New models have been created such as peer-to-peer lending, crowdlending and lending as a service, thus opening the market to non-financial entities. E-commerce and merchant financing have given BigTechs the possibility to enter the playing field too, capitalizing on their tech advantage and vast customer database. Although Banks have been the major providers of SME funding in the EU market (6) so far, alternative lending is becoming more and more appealing and viable.

Technology

Cloud computing and the next generations of mobile technology will accelerate the use of digital solutions across Europe while at the same time, big data will rise in volume and quality pushing AI solutions further. Today we are still unable to analyse unstructured data efficiently. However new algorithms will help us achieve this opening great business opportunities for lenders. On the other hand, SMEs should be able to take advantage of technology, not only for rethinking their business model, but also for selecting the best partner for their specific credit needs.

Open banking

Open banking services will dramatically improve the quality of lending. Sharing of valuable information about the customer will strongly impact not only credit scoring but also change the customer-lender relationship. A new way of delivering traditional bank services will affect not only credit providers but SMEs themselves. New API based services will empower seamless cross-border transactions, thus facilitating the internationalization of SMEs. By eliminating troublesome transactions with multiple national rules and currencies, the traditional business models of SMEs will be empowered to target international markets. Traditional supply chains will evolve significantly, not only opening new market opportunities, but also offering space to foreign competitors.

Looking at the pace of these evolutions highlights the different
speeds of various initiatives. The EU is operating in a traditional banking era, not only due to its regulatory regime, but also to its aged population. Online alternative finance for businesses takes only 1.42% of the lending market in Europe (excluding UK) (7). Asiatic, UK and US markets develop more dynamically. Competitors, increased customer expectations and even Regulators have pushed traditional credit providers to innovate. And now, opportunities driven by new technologies and open banking services have started to emerge creating a pulling effect.

Innovation of financial services and the pace to fully digital services are accelerating. As a domino effect, even the traditional institutions such as wholesale Banks must struggle to compete, launching ambitious digital innovation projects and filling the gap with Fintech and BigTech rivals. Despite the draining legacy of the physical branch network, cost of delivery will have to be minimized. A digital relationship becomes a must, whilst physical presence will eventually be a luxury.

Finally, dreaming of a fully mature digital lending market in 2030 can be for some too ambitious while for others it’s a certainty. For sure, the new lending marketplace will include a variety of credit providers besides the Banks as they are known today. Some may be independent while others interconnected to complex networks for better management of risks and portfolios. The combination of players, technology and changing needs of SMEs will be transformational, resulting in more creative and dynamic lending offers.

Banks will still have a central role in that arena, but only if they are able to involve SMEs in the virtuous circle of digital innovation, being more FinTech oriented that the FinTechs themselves.

Notes:
1. Statista
2. Based on own calculations with the trend analysis using the least square method.
3. EC
4. EC
5. PWC
6. EC
7. OECD
Isabel Nepstad, Yu Ding: 
Microfinance in the Digital Age

Knowledge is more important than money
During these difficult times as the world is faced with the global pandemic outbreak, economies must deal with social unrest, unemployment and disrupted supply chains. The most vulnerable groups, particularly the poor, face significant impacts, with little insurance or capital to cope with decreased incomes and great uncertainty. COVID-19 makes us rethink how to make society and the economy more resilient with the use of tools such as digitalization and finance to face future pandemics and crises, such as the climate crisis.

Digital technology is changing our society, and the way of doing business. Digital “know-how” is viewed as the tool of the future to add value and build resilience for the rapidly changing global economy. However digital technology is not impacting all countries and all businesses equally. Varying stages of digital development will create deeper gaps among people and society. Vulnerable groups often still rely on physical labour to sustain their livelihoods, and low education levels often make it challenging for these groups to actively engage with the digital economy. To address these gaps, it is important to consider both the economic gains and social benefits of digitalization. Civil society organizations have a strong role to facilitate in filling these gaps, to leave no one behind in the digital age.

Microfinance was an important instrument to reduce poverty and support poor communities. But in the age of digitization, merely providing funding is not enough anymore. Often impoverished people not only need money and credit, but they also need a trustworthy person to provide them with reliable financial advice to seek better opportunities. This value of trust will be decisive for any organization in the digital age, especially for poor communities with digital disadvantages.

Empowering clients and more actively organizing social impact-driven activities are not only necessary value-added services to increase competitiveness, but also facilitate in building resilience and effectively working towards achieving sustainable development. In the age of more intensive competition, knowledge is more important than funding. An open-bank strategy is not only important for commercial banks, but also important for Microfinance Institutions (MFIs). MFIs should be transformed into trustworthy digital service platforms for their clients.

Based on trust, MFIs can provide many value-added services. Although MFIs in China are facing strong competition from technology giants such as Alibaba’s Ant Financial, smart MFIs such as CD Finance, is one example of the largest MFI in China with a focus on rural areas. CD Finance has evolved from being a traditional MFI to a digital financial service provider. Even more, based on the core micro-lending business, additional services with clear commercial sustainability along the agriculture value chain are provided. Group purchasing of fertilizers for farmers allows significantly lower prices and quality assurance. CD Finance organizes various types of sales for clients, from training for farmers, to providing online digital tools and services, CD Finance is uniquely positioned to develop the financial know-how in China’s rural areas.

Trust is not only important for the future business development of MFIs, but it can also be the starting point for further pursuing the sustainable development goals. In the past, MFIs with very labor-intensive workflows had to concentrate their activities to ensure portfolio quality. Digital technology gives MFIs a variety of opportunities to provide services to empower their clients, with new skills and “know-how”, MFIs are in a position to develop their own digital ecosystem built on trust and understanding in the community. This strategy will make MFIs different in comparison to technology giants.

To further enhance and develop the sector, civil society organizations should help lead the digitization trend, providing digitally disadvantaged communities with knowledge and capacity. While impoverished communities often face low education levels, education and providing the knowledge in business development and finance enable long-term impact and sustainability. Funding alongside raising awareness and acceptance of sustainable finance might not be the bottleneck for development anymore. Integration of social impact-driven activities to the traditional function and services of microfinance will be decisive for the success of building a digital ecosystem and for the long-term success of the microfinance ecosystem.

Actively addressing gender inclusion is crucial for reaching the Sustainable Development Goals by 2030. Last year, based on long-term repayment statistics of clients in two different regions in China, an analysis of repayment behavior was made. In this survey, we saw the phenomenon that in male-dominated communities, women are not only more responsible for family
matters, but also better clients for microfinance institutions. Creating digital communities for women with the provision of knowledge and skills will not only help themselves, but also support their children and families leading to reduced risks in business in the long-term. This has also proven to improve financial health by avoiding speculation and over-debt due to over consumption. In general, it will lead to more responsible behavior inside the family alongside a better family and educational environment for children.

Civil Society Organizations cover a wide range of issues including education, health, gender, and environment that are often overlooked amidst economic growth. Multi-stakeholder partnerships are an integral part of addressing these cross-cutting complex challenges in the digital age. Working together, Microfinance Institutions and Civil Society Organizations can jointly have greater impact to ensure long-term sustainability.

Due to cultural and economic differences among communities and countries, we might not have the “best” digital solution for the MFI ecosystem, but the competition among MFIs, traditional banks in digital transformation and technology companies and startups will fill the digital gaps. International organizations could lead this development with innovative ideas, capacity building and development of pilot projects.

Gender equality and financial health issues should be priorities, and most importantly, education, including digital professional training are core components of the digital ecosystem of MFIs. The future of microfinance will not be made by funding, but through multi-stakeholder partnerships and knowledge-sharing will be integral parts for empowering and enabling rural areas and disadvantaged groups to benefit from the growing digital economy.

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While it has long been promised that blockchain technology, big data algorithms and open banking would change global financial services by making it less cumbersome, more universal and customer-centric, we haven’t seen the needle move as much as expected. The picture that is emerging is far more complex than predicted. This is truest of all in developing countries where many use mobile money for paying bills and remittance, but cash it out to pay life’s other expenses. The cash-in-cash out networks necessary to sustain the mobile money business show — somewhat paradoxically — that cash remains crucial to the process of digital transformation on the African continent. It remains to be seen whether this will change post 2030 but may be unlikely in emerging economies.

With financial inclusion increasingly a key development goal globally, it is interesting to see that the organisations leading the charge in Africa have largely been telecommunications companies rather than traditional financial services providers or banks. Through partnerships with mobile network operators and financial services providers, financial technology company JUMO is able to deliver financial products to Sub-Saharan Africa and South Asia where there is high mobile money penetration, but low traditional banking penetration.

The word ‘bank’ originates in banca, or ‘table’, from the first Florentine bankers who made their transactions in the marketplace atop felt-covered desks. The marketplace origins of banking may yet prove significant as more and more small businesses make their products available through modern, online marketplaces like Facebook, Amazon, Jumia and others. Ant Financial became the biggest fintech in the world only five years after its founding as part of the Alibaba group largely by helping consumers and businesses connect with the right credit, payments and insurance support. Merchants and customers, at the click of a button, get support from within the marketplace in which they operate rather than having to gather proof of their transactions, their assets and go to a bank to see if they qualify for credit.

Though mobile money has about the same overall number of users as the traditional banking sector in Africa, the rate of growth between 2014 and 2017 was 4% in banking while mobile money grew by almost 10% over the same period. Mobile and digital are clearly spearheading new growth in financial services. JUMO, for example, extends credit to newcomers to financial services at initially small amounts for a short-term, but access to funds increases as positive repayment behaviour and transactional data develops.

As more customers come online, digital platforms offering credit, savings, and other financial tools are meeting customers where they are and increasing the value proposition beyond payments. JUMO is a full technology stack for building and running financial services. The company uses advanced data science and machine learning to create the fastest and leanest financial services infrastructure for entrepreneurs in emerging markets.

You might assume in this changing playing field that there would be a strained relationships between fintech challengers, telecommunications companies, and traditional financial services institutions, but this is not necessarily the case. JUMO’s partners typically use their technology stack to offer savings, lending and insurance products, enabling hundreds of millions of people to prosper, build their businesses and drive economic growth. The company has redefined banking services for a mobile, digital age and is driving financial inclusion while creating value for mobile network operators and financial services providers. It’s what we call, partnering for possibilities and is a prime example of how FinTechs represent a different way of doing business, while traditional banks retain the benefit of centuries of know-how, cheap capital and expertise in operating credit products.

JUMO’s approach has been to see the differences in capability and experience of the various players as an advantage, choosing to partner with capital providers and mobile network operators to leverage the strengths and expertise of each. The result of this model is increased benefit to the customer, who can access the services they need right from their phone without any barriers to entry.

JUMO is powering a new wave of financial tools, enabling millions of people to prosper, build their businesses and drive
economic growth. Our technology stack radically reduces the unit economics on the delivery and administration of financial products so that partners can reach new markets and customers can access the best products at the lowest price.

As more and more platforms like JUMO and marketplace services grow from Uber to Amazon to Facebook, the exceptional lessons learned from the COVID 19 pandemic on the need for digital and online presence, and the history of financial services being most effective in marketplaces, we can expect to see more small-scale businesses getting their support not from going to a banking hall, but perhaps speaking to their marketplace provider, who knows them better than anyone else. Financial services arose in marketplaces to facilitate commerce. As e-commerce grows, the marketplace providers will be the natural providers of financial services for the participants. All that remains to be seen is whether they will become the new banking service providers themselves or if banks can adjust and partner up adequately to support the new frontier of commerce.

I believe the answer lies in the alignment of strengths and therefore partnerships. Along the way, every banking organisation will become a fintech organisation and every fintech a bank. This can only benefit SMEs and help bridge the funding gap for the future. Roll on 2030.

Joel Muhumuza is JUMO’s Country Manager for Uganda and Kenya. He is a digital financial services specialist and an innovative, commercial and strategic thinker. He is currently working with JUMO on the development of digital financial services for Uganda and Kenya. Joel thrives on project-oriented work in a collaborative environment.
SME Lending in South East Asia remains traditional till this day. Using account managers, most banks and finance companies still prefer to give out loans that are large in amount, longer in tenor and collateralized. These types of facilities help provide a better return on risk weighted assets given its lower cost to serve and expected credit loss.

However, most SMEs do not have the capacity to support a long-term debt obligation as they are either too young, too small or have no collaterals to pledge. Banks generally exclude this space so these SMEs will need to plug their working capital gap with their savings, borrowings from family and friends and more recently, fintech lenders.

Fintech lenders started serving the SME space in South East Asia around five years ago, offering short term, unsecured working capital term loans backed by P2P funding. Unfortunately, most standalone lenders eventually closed shop or pivoted their focus to invoice financing once they realized the business model was not viable due to high sourcing, funding, and credit cost. Those that had the capital to stick it out were soon able to digitize the underwriting process through OCRs technology and API pulls, as well as iterating their credit scorecards to eventually build a stable, but small portfolio.

In 2018, “ecosystem lending” became a buzzword. The concept of combining a lender’s balance sheet, deployed by a tech company’s platform to serve someone else’s customer base with a low ticket, high volume transaction level financing product got the financial industry excited. Specialized teams were soon being formed and tasked to deliver an ecosystem lending solution in a few months. They soon learned though that the set up takes as long as 9 to 18 months given the complexity of system integration, data sharing and management commitment.

These recent developments in SME finance, plus our recent Covid-19 situation, points to one clear direction over the next decade – SME finance will be connected, smaller and faster.

In addition to the above-mentioned trends, Covid-19 had also spurred various market’s governments to encourage the use of cashless transactions through eWallets. Malaysia distributed grants to qualified citizens through eWallets and it is believed this trend will soon become the norm. Now picture the same eWallet for a lending use case – lenders can disburse and collect repayment from the wallet as well as having the ability to control cash outs or credit limits. That will lead to a seamless experience for both the borrower and the lender.

These developments will greatly lower an SME’s barrier to access finance and create an environment towards economic upliftment. Underserved SMEs and micro-enterprises will eventually be able to establish credit track records which will allow them to avail of larger loan amounts that can fund their expansion or asset acquisition. Those with poor credit track records can have a chance to redeem themselves as each transaction is a unique facility and the lenders will have a higher appetite to serve them.

The next few years is filled with potential for the evolution of SME financing. What has brought us till today, the good and bad, will hopefully lead to a golden age of financial inclusion for South East Asia.
JD is the Head of Regional MSME Lending at Grab Financial Services. Based in Singapore, he works closely with country teams to develop and launch financial services solutions for underserved SMEs. He has close to 20 years of experience in the finance and tech industry. He started his career in the Philippines with an IT startup specializing in e-commerce and contactless payments before moving to Singapore to pursue his MBA under a full scholarship. After his MBA, JD started his career in the financial services sector focusing on credit risk management, financial planning and analytics for the consumer and SME segments. Before joining Grab, he was leading the regional SME analytics team at United Overseas Bank. He was also previously with Fullerton Financial Holdings and Standard Chartered Bank. He holds a Bachelor’s Degree in Management Information Systems from Ateneo de Manila University and a Master’s in Business Administration from Nanyang Business School.
**Juan Escrig Martinez de Salinas:**
**The increased relevance of the public sector in future SME financing**

**Vision’s title:**
A countless number of trends will influence our economy during the next 10 years, and while SME financing will be affected by global-scale trends such as sustainability or the increased relevance of fiscal policies, I believe one main factor will clearly shape the way small and medium enterprises obtain funding: a more significant role for public institutions. SMEs are increasingly more relevant in the correct functioning of both developed and emerging economies given their innovation potential and their closeness to consumers, and policymakers must begin to develop SME-focused measures to encourage entrepreneurship and innovation across countries, key attributes to tackle the present and future challenges of the society we now live in.

Small and medium enterprises have struggled since the Global Financial Crisis to access debt financing. Since the publication of Basel II, banks’ appetite to lend to SMEs has diminished given the impact on their risk-weighted regulatory capital requirements. Consequently, SME financing costs have risen, fostering the appearance of intermediaries in the industry like sponsors or credit distribution platforms.

Public institutions will need to expand the scope of their activities to continue supporting businesses in their jurisdictions. The difficulties of developed economies – specially Europe and Japan – to achieve sustainable growth levels and the exhaustion of monetary tools, unable to impact the real economy, will eventually push public institutions to become a key part in SME funding, not only because of their financing capacity but also because of their ability to involve other stakeholders in the process. While policymakers have recently introduced several non-conventional monetary and fiscal tools, SMEs and individuals have only benefitted from a limited number of them despite being primary sources of demand and consumption, particularly in developing economies or other countries such as Spain or Italy.

Every area of the public sector needs to adapt to the faster change our society is experiencing: from central banks – who have already stretched their toolbox in recent years but will be required to incorporate other factors such as ESG into their rationale – to multilateral institutions, who need to expand their operations and shift their focus to increasing their impact on the real economy, where SME-targeted programs could be a starting point. The current strategy review of the ECB is a prime example of the public sector reform required to ensure its actions are aligned with the needs of our society.

Governments in developed countries will also need to adapt fiscal policies to the new reality, where monetary policies are not enough to spur inflation. Offering fiscal benefits to those corporations acting in accordance with the priorities of each government (e.g. sustainability, innovation, or unemployment) is a simple way of supporting the private sector through objectives-based policies that hold companies accountable. Recent fiscal measures by European countries to minimise the impact of the pandemic are a good example: the UK for instance announced on the 8th of July a £9bn program to provide companies with £1,000 for each employee they maintain until January, tackling the expected unemployment rise once the government unwinds the furlough programs currently in place. We should expect similar policies to appear in other countries during the next 10 years, without the need of a pandemic for their implementation.

In order to support entrepreneurship and innovation, governments should review their state-aid policy and avoid backing failing companies through equity injections. State aids are unfair to competition, and we will soon observe large differences between the companies that received capital support and those who did not, particularly in common markets such as the Eurozone. State aid is unfair particularly to smaller companies who are not able to compete on equal terms with larger corporations. Loans, guarantees and other debt facilities should be the only way for governments to support those corporations deemed ‘too big to fail’, ensuring a relatively levelled field for competitors. In addition, companies partially or fully owned by governments have historically underperformed, obtaining lower-than-expected returns for taxpayers and becoming a headache for lawmakers in many situations.
Alternative funding sources start to appear in the capital markets for companies of any size, and obtaining funding from suppliers or other private stakeholders will become increasingly common in the near future. Several companies like Amazon have already pledged financing to smaller businesses who are struggling due to the outbreak of COVID-19, and we will soon observe how obtaining financing from large cash generators like Amazon or Apple becomes a widespread resource for SMEs, driven by the difficulties larger companies have to achieve positive returns on cash investments in the current low interest rates environment and the benefits in terms of innovation of collaborating with SMEs. Supplier and client credit will soon become much more flexible and accessible funding options for smaller companies, who will benefit from an additional source of funding and less dependency on the banking sector. Although corporations might find banking regulation challenging at first, large companies could find a way past venture capital investments and supplier credit in the near future and begin acting as actual lenders for both clients and suppliers. Furthermore, the collaboration between the financial resources of private corporations such as Amazon and the influence of the public sector through targeted programmes such as credit guarantees would create an incredibly powerful tool able to reshape the credit market for SMEs.

In conclusion, public and private institutions will be required to collaborate in the future to foster innovation and growth. Monetary policy in its current format has been unable to correctly align its actions to the objectives of our renewed society, and the public sector will soon realise they require increased dialogue with private institutions in order to appropriately adapt and support economies. Reduced fiscal pressure, strict competition laws and a clear and updated direction of travel coming from public institutions will be key factors for the success of an easier financing environment for SMEs, who would be able to continue developing innovative solutions to future challenges and strengthen even more their influence over the future of our society.

Juan is a 23-year-old Spanish individual currently working as an Associate at NatWest Markets, the investment banking arm of the NatWest Group, offering financing and risk solutions to European corporates. Son of the owner of a family business and an entrepreneur, he has always shown a keen interest in entrepreneurship and small companies, as well as the public sector or the banking industry. Avid reader, great listener and football (and any other sport) fanatic, he has studied and worked in 3 different countries while completing his degree in International Business Management at ICADE and Lancaster University before joining NatWest Markets, where he has worked in both London and Madrid. Fun fact: Juan was National U16 Volleyball Champion in 2012 with the Universidad de Valladolid team.
Karen Kammeraat: Creating a capital value chain from wealthy individuals to small businesses

For years, or maybe even for decades, there has been a financing gap for the smaller businesses within the small and medium sized business range (SMEs). I am talking here about businesses that have passed the start-up phase and have the potential to grow. In order to grow they would need a loan somewhere between EUR 20,000 and EUR 100,000. These loans are too big for the micro finance institutions and too small for most regular banks. The high interest rates at commercial banks also withhold small businesses from using this route. Attracting equity is mostly too complicated in terms of administrative and financial burden, so this means that this group is not ready for venture capital yet. Since women are overrepresented in this size of businesses, they are the ones who suffer the most from this financing gap (and apart from that, in most countries they have a number of other challenges to overcome).

A service or institution that provides the right financial services for small businesses is urgently needed in order to make the SME sector in developing countries flourish and provide the opportunity to break through this difficult line between start-up and established company.

On the other side of the capital value chain, we have the well-off people with substantial amounts on their savings account. Not necessarily the millionaires, but the large group of people that earn more than a moderate salary and have EUR 10,000 or more on their savings account, that they are not saving for a special occasion.

These days, and for as far as we can see in the future, the interest rates on savings account are very low. People are open to options that make more out of their savings. On top of that, there is a trend towards wanting to do ‘something good’ for the world.

I personally am one of these individuals who has some money on her savings account and wishes to do something with it that makes the world a better place and wishes poverty in a structural and sustainable way, and at the same time taking the opportunity to increase my savings. Over the last couple of years, I have provided loans to 10 to 15 small businesses in Africa, either directly or indirectly through a platform. Currently only a limited number of people are with me, but I believe that there are many more who would be interested, if it would be better known and easier accessible.

The future of SME financing, for the smaller businesses as described above, lies in bringing these the small businesses and the wealthy individuals together! How? There are many ways you can think of. Below are some examples:

1. Funds that attract loans from affluent individuals and provide loans to small businesses in the above-mentioned range. It is expected that the fund can provide a higher interest rates to the individuals than they would get on their savings account and offer lower interest rates to the businesses than commercial banks. This way the fund will be attractive for both sides of the value chain and will leave sufficient budget for the fund to pay the overhead. Win-win for all parties.

2. Crowdfunding. This works similar to the first option, but here individuals can choose in which business they want to invest by giving a loan. Normally, many individuals provide a small part of the requested loan, together counting up to the needed amount. An example of this is the Lendahand platform (lendahand.com). There is room for many more of this kind of Platforms.

3. The brave and adventurous individuals with connections in developing and emerging economies can directly provide loans to small businesses and set up their own contracts with them. They can do this on their own or form a group. Here is also a role to play for accelerators, business hubs, business development service providers, etc. in developing countries. If they know what potential investors, the wealthy individuals, are looking for, they can select the right small business for them to present their business and financing need. This can either be done online, or by organising investor trips. The advantage of the latter is that the investor can visit the business on site. The service providers will also have a role to play in educating the businesses in what is expected from them as a loan recipient. Another task for the service providers is to take up the administration.
and develop the contracts that are understood by both parties and fulfil all legal requirements.

I have walked and currently walking road 2 and 3. They both have their pros and cons. The main advantage of crowdfunding is that everything is arranged, and the only thing you have to do is transfer the money you wish to invest. The fun of part 3 is the direct contact with the business and the fact that you can have an advisory and moral support role. I would love to be part of a bigger network who wish to create this capital value chain, to make it bigger and help grow the SME sector in developing and emerging economies. And I think it is possible!

The mission of Karen Kammeraat is to contribute to a fairer distribution of money, and to a fair income for all. She brings this into practice by training SME women entrepreneurs in developing and emerging economies, with the goal to grow their business and create employment. She raises funds for income generating projects in developing countries. She is a business angel, investing in a number of African, women-owned, SMEs. In her home country, the Netherlands, she promotes the purchase and use of fair-trade products. She believes that in order to fight poverty structural and systemic changes are necessary. She has worked for 10 years for Oxfam Netherlands, in the area of fair trade, economic and financial development, and working on more positive framing of the strength and power of people in developing countries. She has worked and visited many (developing) countries.
Linda Onyango: Imagining a Future Where Legacy Financial Institutions Operate as Decentralised Finance Institutions

During the first half of 2020, there has been a growing debate in the startup and SME ecosystem in Africa on the type of capital flowing into Africa and the actual beneficiaries of that capital. There have been several arguments and counterarguments but from where I sit there are two key conclusions I have drawn from this debate. The first is the fact that there is an ever-growing need in Africa for early-stage funding in various forms for startups, micro, small and medium enterprises (MSMEs). The African Development Bank (AFDB) estimates that out of the nearly 420 million youth aged 15 to 35, only one out of six are in wage employment. The five out of six who are not in wage employment will likely end up in entrepreneurship and will require funding. The second conclusion I draw is that the current funding supply structures comprising of legacy financial institutions and private cannot possibly meet this ever-growing demand for early-stage capital. This, therefore, means that there is a need for new funding structures to ensure more local or international capital is mobilized into African businesses.

On April 10th, 2020, Mr. Inoluwa Aboyeji a respected African entrepreneur and founder of Andela and Flutterwave announced the formation of the “Future Africa Fund” based on two key concepts “decentralized finance” and “rolling funds” (https://angel.co/v/back/future-africa). Since then there have been several announcements by other similar experienced and influential entrepreneurs, most recently including, Mr. Sahil Lavingia, the founder of Gumroad. Am sure you are wondering, how these two concepts will change the funding landscape in Africa and beyond? (To guide you further, I had prepared a detailed comparative table analysis between legacy financial institutions, private funders and decentralized finance, which I cannot paste here, but can share upon request).

Decentralized finance as a concept allows an experienced and influential entrepreneur in a particular field, to mobilize capital for early-stage investments on a rolling basis from the public or as many retail investors as possible. It also provides for an element of choice since each investor is provided with an array of carefully reviewed enterprises to choose from and they are free to decide in which enterprise they will put their money. The structures that the concept of decentralized finance provides could allow for a more structured way of increasing the supply of capital whether local or international to African businesses. We have so far only seen, the concept tested by successful entrepreneurs focused on high-growth tech startups, backed by fund administrative processes provided by Angel List. Now the question remains, how can the same be replicated to a majority of African micro, small and medium enterprises who are low/ medium- growth enterprises and not tech-based? What local administrative structures can we take advantage of in Africa to ensure, decentralized finance can ensure more and more local capital is mobilized for African businesses?

The commercial banks and micro-finance institutions (MFIs) in Africa have for a long time been the go-to financiers for any Micro, Small or Medium enterprises, as long as they have the collateral to back up their request. These legacy financial institutions have also been the largest beneficiaries of retail capital from the deposits of the millions of institutional and retail customers that they serve. This is a key premise of the concept of decentralized finance, mobilizing capital from a wide range of people. These institutions have the required administrative structures and technology to manage the lending and flow of capital into African businesses. The missing link is the element of free will and choice on which investment by the millions of retail depositors/investors. These institutions have had their investment decisions highly regulated by the central banks primarily because they do not lend their own money. Thus, can we re-imagine a future where this choice is decentralized? What would it take to re-imagine this future?

Re-imagining commercial banks and MFIs as decentralized would require policy changes and would perhaps open up an era of less regulation by the central banks. The deposits will continue and staff within the commercial banks would still source, review, and present possible loan applications.
or investment deals to any potential up taker/customer. The customers would be eligible to commit to any investment based on their level of deposits. The bank staff will also manage the disbursements and collections in exchange for stipulated fees or any revenue share arrangements. It can start as a pilot that offers customers the flexibility to sign up for such a scheme. I believe these radical thoughts would change the future of what banking looks like and would perhaps ensure that more local capital is mobilized to meet the ever-growing funding gap for micro, small and medium enterprises in Africa.

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Linda is the C.E.O of SME Support Centre (SSC) based in Nairobi. She also sit on various boards including the Association of Startups & SME Enablers Kenya (ASSEK), the Association of Sustainability Practitioners Kenya (ASPK) and the SME Sector Board of Kenya National Chamber of Commerce. Over the last 3 years, she has led the provision of transaction advisory services for SMEs worth USD 2 million. She has also led the provision of business and Investment advisory services for over 200 SMEs over the same period. In March 2019, was awarded by Berkeley Middle East Holdings during the Sub- Saharan Africa Investment Forum as the “most supportive local supporter” for her role in mobilising capital for SMEs in Africa. In 2018, she was appointed as an SDG Influencer to represent Kenyan SMEs at first Heads of States Partnership for Green Growth Summit in Copenhagen. Prior to SSC, she was the lead SME advisor for Energy 4 Impact/Kenya Climate Innovation Centre where she led the delivery of business and investment advisory services to over 100 renewable energy and agribusiness SMEs. Prior to this, she was the strategy and operations consulting manager at KPMG where she led and facilitated the development of strategic plans and business plans for various clients including government and private sector companies in multiple sectors. She started the early years of my career working for PWC and Olympia Capital Holdings where her notable achievements included support in launch of the new PWC Advisory strategy and support the successful launch and listing of Olympia in the NSE.
Margarete Biallas: The Future of SME Finance is Going to be About Partnerships

To understand what the future may hold it helps to look back. When I started in working with technology enabled financial services, it was a very different world. Mobile phones were just making their debut in financial services and the world believed it would be either banks or mobile network operators; many predicting the death of banks altogether. Since 2006 the world of financial services has evolved from traditional brick and mortar banking with online offerings, cards and ATMs to embrace mobile money combined with agents. More importantly though, the past decade and a half has seen the rise of FinTechs and TechFins as well as BigTechs such as GAFA entering the financial services space, all of these seemingly eating the banks’ lunch, taking significant market share initially in payments then lending and other financial services such as insurance or wealth management. Alongside all of these firms providing some form of financial service new businesses serving the finance industry are springing up almost daily ranging from service platforms to data analytics, to software vendors. The past decade of the digital revolution has largely revolved around the question of “which model will prevail”. Will banks fail and FinTechs take over or are FinTechs short lived? With the benefit of hindsight, it is safe to say: FinTechs are here to stay. But will they take over from regulated financial institutions? I am not so sure. Challenges FinTechs face include regulators, who increasingly not only realizing the potential for greater financial inclusion, better customer service and lower cost, but also the risks. Banks, regulators are scrutinizing the business models of FinTechs and finding the need to regulate more tightly and the recent bankruptcy of Wirecard seems to substantiate this desire. Also, FinTechs, more often than not, are one trick ponies, with a very specialized service offering and business models which are not easily transferable to other markets. This impacts their ability to grow and in the case of lending, their ability to access funds at a competitive cost. As newcomers gaining customer trust is another issue. Likewise, traditional financial services providers are reviewing their ways of doing business and asking themselves the question how best to utilize the advantages FinTechs bring to reach their objectives of for instance increasing their SME portfolio, improve customer stickiness and greater share of wallet, while improving customer experience.

As a result, banks have not only embarked on digital transformation journeys, but are increasingly collaborating with FinTechs and the auxiliary service providers, often to a mutual advantage. For example, partnering with alternative lenders enables traditional banks to by-pass legacy systems and enhance data collection, scoring, and further rule-based decisions, to increase the quality of the loan portfolio, and stay competitive in the SME lending sector. More importantly, such partnerships provide banks the opportunity to offer ever smaller businesses a shortcut to finance with fast access to cash, less paperwork, and fewer rejected applications. In return, alternative lenders benefit from partnerships by getting experience in handling a complex regulatory environment, reaching new markets, reducing cost of funds and scaling quickly. Collaboration has been one important emerging trend. Beyond the evolution of complex industry ecosystems generating enormous quantities of exploitable data, three key trends will shape the future of SME finance:

1. Quantum computing, which enables bundling of data and the analysis of massive, complex data sets.
2. Internet of Things (IoT) will increase connectivity within industries and across industries.
3. Artificial intelligence will develop algorithms increasing in sophistication as they learn to not only support credit decisioning but take over all forms of financial advisory. As a result, data has become a new commodity and with regards to SME finance a critical enabler. As the pandemic induced rapid pick up of online sales and services, data becomes more and more easily available.

For the next decade SME Finance will expand in line with access to data and data processing capabilities. This combined with partnerships being embraced will see the evolution of traditional SME Finance into ever more complex ecosystems incorporating a number of different market participants in supply, distribution and value chains. The Internet of Things and the resulting interconnectivity will further push the evolution of such ecosystems as ordering will be fully automated and based on for example stock data changes in a shop. These orders will
be directly fed to the lenders credit decisioning tools and used to calculate turn-over, profit and new loan facilities, which will be automatically improved.

As a result of the underlying payment infrastructure in combination with data analytical capacities partnerships are forged to drive financial services further down market, using data to de-risk lending. As such ecosystems generate more and more data using non-traditional data points, lending decisions will become fully data driven with minimal human involvement as algorithms learn and improve predictive scores. Most questions and services will be delivered by chatbots. Partnerships will give rise to new asset classes, presenting opportunities for financial services providers to expand their portfolios.

In the emerging web of complex ecosystems, different actors within the financial services community will have segregated roles in five broad categories:

- Products
- Last mile delivery
- Customer experience
- Data analytics
- Support services and systems – processing remotely, robo advisory, etc.

Financial services will be complemented by auxiliary services such as market, price and quality information for SMEs. All of this will lead to a significant decrease in the SME Finance gap, as even the smallest business is integrated in supply and demand ecosystems produce data along these relationships which will be exploited by lenders and other financial services providers.

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20+ year career in financial services focusing on extending access to finance with KfW and IFC. 10+ years working on digital transformation, building IFC’s DFS practice and provided support to 50+ IFC clients in strategic and business planning on digital banking across the globe. Successfully established two ventures for early childhood education.
Mexico has a solid, sophisticated financial sector: 50 regulated institutions operating under a banking license coexist with a large non-banking sector (“NBFIs”) that includes regulated and non-regulated entities. The vast number of players may make one think that SMEs are at the core of opportunities, as they generate about 80% of jobs in the economy. However, only 4 out of 10 firms that requested financing in 2017 were small and medium enterprises (“SMEs”). While many of the requests to banking institutions were approved, it took SMEs an average of 13 years of experience to make the request for the first time!

The challenging funding journey of an SME starts with information gathering to be able to generate a traditional banking scoring. SME lending is complex worldwide both because of the blurred or nonexistent line dividing the firm’s and the owner’s assets, plus the constant transferring of flows between each other to either simplify operations or even to obtain fiscal benefits. Thus, incomplete, and/or unreliable information to generate a score, coupled with an environment of weak rule of law (which makes the enforcement of contracts and the execution of guarantees a cumbersome) prompts banking player to approach SMEs cautiously.

Such caution towards SMEs helps explain the current financial landscape. On the one hand, banking institutions in Mexico cater mostly to retail customers, large enterprises, and corporates, with the latter finding robust financing in local currency and USD, as well as access to developed, liquid financial markets for investment-grade issuers. On the other hand, NBFIs specialize in segments to differentiate their product offer, relying significantly on wholesale funding to finance their local currency on-lending operations. The financial sector landscape is complimented by a vast offer of personal credit from regulated and nonregulated actors through credit cards, personal loans, and consumer-oriented credit.

Against this backdrop, how can SMEs gain access to competitive financing to grow? In our view, part of the answer can be found in traditional credit analysis techniques, which may fall short and inefficient when evaluating SMEs. Financial institutions often rely on parametric techniques and the usual financial analysis that needs past performance information (i.e. audited financial statements by reputable firms, credit ratings by third parties, or even stock exchange listing data), when assessing retail customers, corporates or large enterprises. Because SMEs often have limited or low-quality information, analysis under traditional techniques can either prevent an application from being assessed or lead to rejections, especially for early-stage SMEs.

In this context, the use of artificial intelligence, machine learning, and self-adjusting algorithms that can analyze fragmented information and/or large amounts of data from alternative sources to create a credit score could prove invaluable in closing the SME financing gap. By exploiting non-traditional data sources, such as daily payment/deposit transactions, information from mobile operators or utilities, interactions with an anchor firm that provides supply chain finance, among others, the new credit scoring algorithms may be able to more accurately predict the level of income, expenses, payment capacity, repayment performance, or even identity checks to calculate an adjusted score and default probability to an otherwise un-scorable economic agent.

The adoption of non-traditional scoring methods could be further developed by open banking, a system where clients allow institutions to share their personal information to other parties. This mechanism diminishes information frictions, as clients can concentrate all their financial information with all financial sector institutions under one roof, which can be managed by a third party. The premise behind open banking is that more complete profile of a client will encourage competition among financial sector providers, as the client would be able to obtain services that better fit his/her needs.

The latest COVID pandemic is accelerating the evolution of traditional banking business, which not only requires the digitization of banking products and services, but also reimagining credit scoring systems that better serve the needs of current and future SME owners. However, their introduction may face fairness, privacy, information security and methodological replicability concerns from regulators. Fortunately, new fintech regulation models, like the one Mexico approved in 2018, provide a space to better understand the
implications of alternative scorings in core portfolio activities like non performing loan management, reserve buildup, recovery efforts or write-off generation vis a vis traditional scoring.

It may well be a matter of time for financial and non-financial actors to pilot their solutions in the Mexican sandbox. For example, in January 2020, Singaporean CredoLab was recognized as a provider of smartphone-only credit scoring methods after piloting under the regulator’s sandbox program. Such authorization came five years after the creation of a Fintech and Innovation working group within Singapore’s regulatory agency in 2015. How much time it takes for new credit scoring models to be implemented depends on the boldness of financial sector players to take the COVID crisis as an opportunity to challenge the status quo and impact in deeper and better ways their SME clients.

Conclusion
SMEs are less susceptible to be analyzed using the traditional credit analysis tools as large enterprises and corporates, due to a large degree to information asymmetries. Alternatively, applying parametric credit analysis to larger than retail loans could increase the overall risk of a portfolio, as there are not enough loans to diversify the risk. Using artificial intelligence, machine learning, and self-adjusting algorithms, not only would allow for the processing of many credit applications and the corresponding portfolio management, but also permit the identification of behaviors and patterns, and the distribution of losses in large pools of loans sharing similar characteristics. In this context, the adoption of open banking initiatives will be an invaluable element to the ecosystem.

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