



# SME Access to Finance and Financial Legal Infrastructure

**Jinchang Lai**  
Principal Operations Officer,  
Financial Institutions Group Advisory Services, Asia Pacific, IFC

# Firm Finance in Asia

Economy	% of firms with a bank loan or line of credit	% of firms identifying ATF as a major constraint	Economy	% of firms with a bank loan or line of credit	% of firms identifying ATF as a major constraint
China	25.3	2.9	Bangladesh	42.5	17.2
Indonesia	27.4	16.5	Bhutan	46.5	24.0
Cambodia	19.9	7.6	India	21.5	17.3
Malaysia	38.3	10.0	Nepal	35.0	9.0
Myanmar	11.3	9.9	Pakistan	2.1	14.8
Lao PDR	27.4	17.4	Sri Lanka	40.4	14.0
PNG	45.7	3.2	<b>South Asia</b>	<b>21.5</b>	<b>17.3</b>
Philippines	29.9	10.7			
Thailand	15.5	2.4			
Vietnam	40.8	10.8			
<b>East Asia &amp; Pacific</b>	<b>29.0</b>	<b>13.0</b>	<b>Upper Middle Income</b>	<b>37.4</b>	<b>13.1</b>

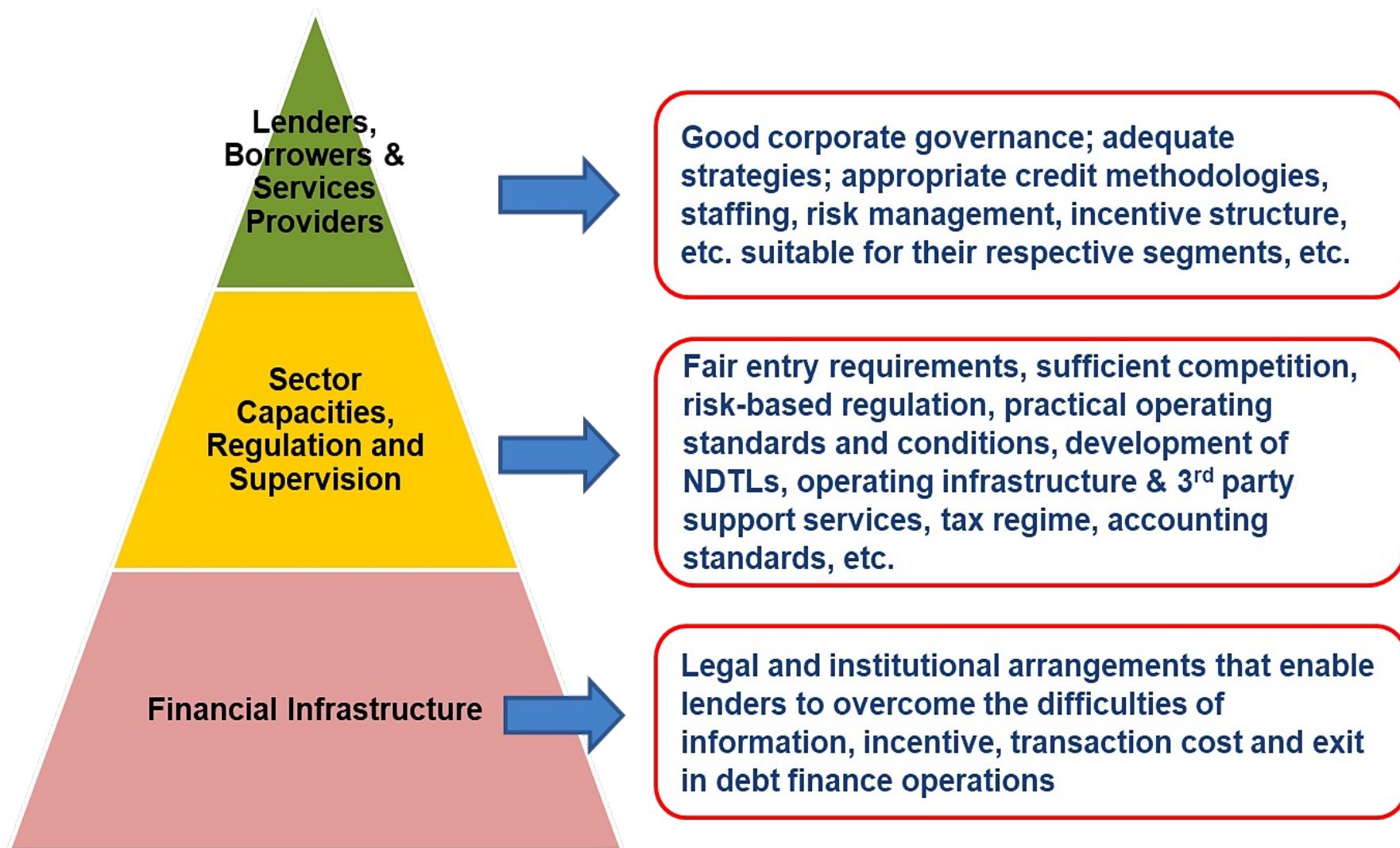
Source: Compiled from World Bank Enterprise Surveys.

ATF = Access to Finance

# SME Finance in Asia

- Overall, it appears that the level of firm (mainly SMEs) access to finance (ATF) in Asia is lower than the average for Upper Middle Income Countries (NB: Not high income countries)
- Why different economies exhibit different degree of ATF outcomes?
- It is **mainly a matter of enabling environment**, including the activeness of governments, particularly that of financial regulators and law & rule making authorities
- The enabling environment can be characterized by three layers of elements necessary for a SME finance market to function properly and efficiently
- Of which, financial (legal) infrastructure is the foundation – essentially, *these are “collective arrangements” required but cannot be set up by one financial institution alone*

# Three Layers of Enabling Environment for SME Finance



# Foundations of Modern Credit Market

- Four fundamental difficulties faced by any creditors:
  - ✓ Information (*How do you know a debtor has capacity to repay?*)
  - ✓ Incentives (*How do you know a debtor will be willing to repay?*)
  - ✓ Transaction cost (*What is the cost of underwriting and managing an exposure?*)
  - ✓ Exit (*What can you do and how much can you recover when a debtor defaults?*)
- If an economy cannot provide adequate legal and institutional arrangements for the creditors to overcome these difficulties, its credit market will not develop satisfactorily, and its SME finance will be difficult

# Foundations of Modern Credit Market

- **Three key financial (legal) infrastructures are indispensable for the proper functioning of a modern credit market:**
  - ✓ **Credit reporting system and third-party data & analytics framework:** Help to overcome **information** asymmetry; give **incentives** to borrowers through the accumulation of reputation capital; lower **transaction cost**; facilitate identity verification and anti-fraud screening and provide **non-credit data** to enhance assessment
  - ✓ **Secured transactions system:** Allow lenders to obtain information from and structure incentives to borrowers through the use of **movable asset** collateral; reduce transaction cost with the predictability of secured lenders' rights; and control loss given defaults (LGD)
  - ✓ **Insolvency system:** Enables orderly restructuring, rescheduling and **exit**, thus reducing transaction cost; facilitates the trading of distressed assets and a speedy resolution of crisis; encourages entrepreneurship by giving the financially insolvent people/business a new life



# A New Regime for SME Finance is Emerging

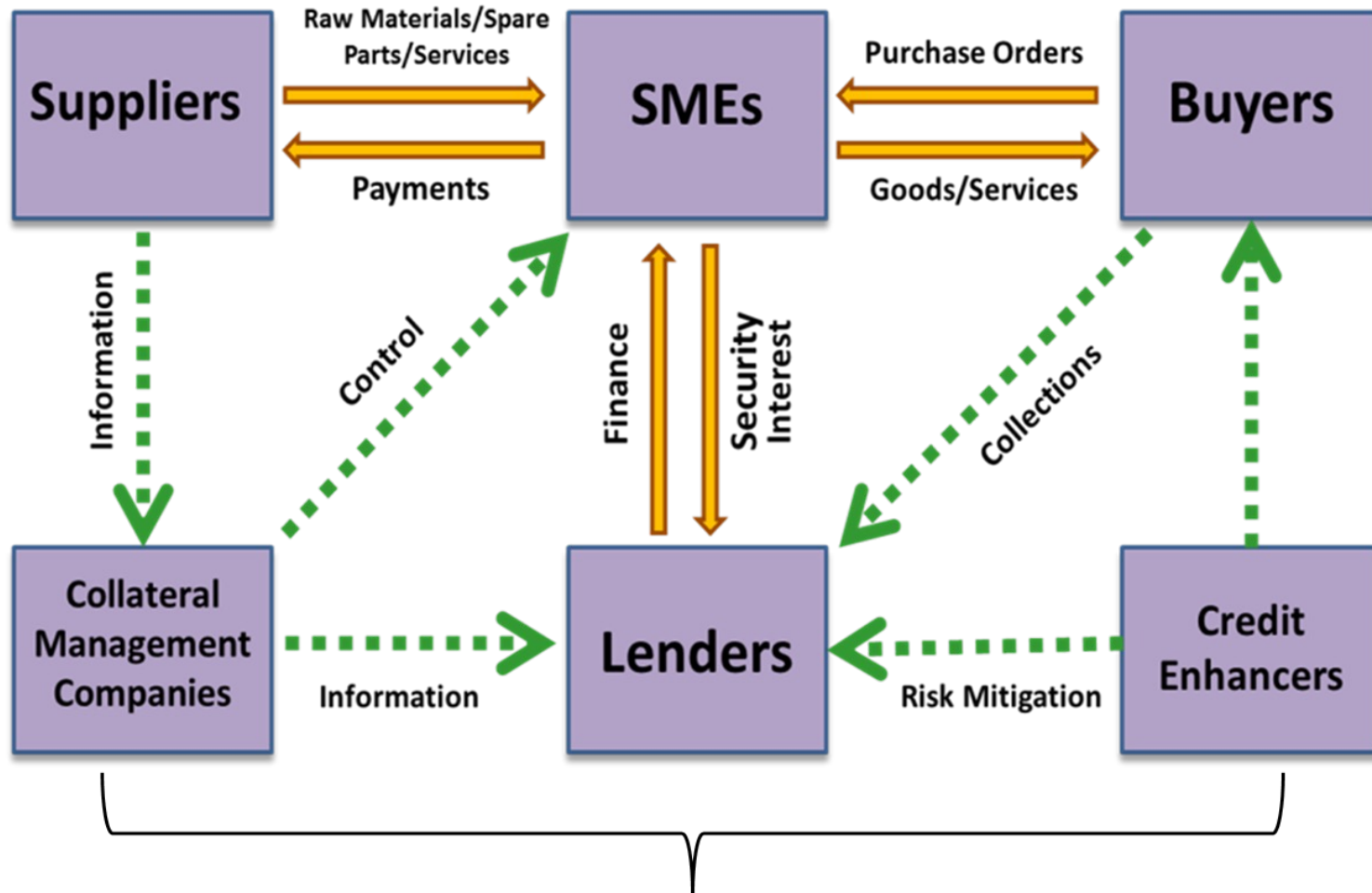
- In economies where financial infrastructure is reasonably developed and the financial regulator & SME promoters are active, a new regime for SME ATF can emerge
- Such a regime consists of **three inter-related elements**:
  - ✓ Growth of **movable asset finance** market; development of supply chain management (SCM, including logistics) e-platforms and supply chain finance (or receivables & warehouse finance) **e-platforms**
  - ✓ Expanded use of **data & data analytics** to facilitate digital commercial lending and **eco-system lending**
  - ✓ Increased number of **non-traditional and non-FI debt investors**, enabled through e-platforms, via regulated investment structures
- Conventional complaints on SME borrowers (*no acceptable collateral, no financial statements, arbitrage behaviors, transaction cost, etc.*) are no longer the main concerns

# A New Regime for SME Finance is Emerging

- **Case:** Several years ago, supported by IFC, Firm F developed an auto lending solution for supporting the lower end SMEs. It has been used by some 130 banks, and is **data & analytics driven** (*self-reported data, credit bureau data, and data and analytics from 3<sup>rd</sup> party data & analytics providers*)
- **Example:** Digital platforms for receivables finance, or inventory finance or supply chain finance have created new eco-systems for finance suppliers, expanding the supply of debt finance providers **well beyond banks** (*non-bank investors, non-financial-institution investors, high net-worth individuals, government development finance providers*)



# Example: AR & Inventory Finance or Supply Chain Finance Platforms Attract Non-Traditional Debt Investors



SCM firms, SCF e-platforms, funders, service entities, associations, government supporters, bond market players, foreign participants, packagers, re-financiers, etc.

# Thank You!

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