

# CERTIFICATE LAW REGULATION INCLUSIVE FINANCE, 3<sup>rd</sup> COHORT (2019)

## Facilitating Smart Policy Framework for MSME Access to Financing

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# MSMEs are the **bedrock** of country's economy

MSMEs play a critical role in improving economic growth and promoting shared prosperity, accounting for the bulk of private enterprises, 60 % of the global workforce, and about half of global GDP

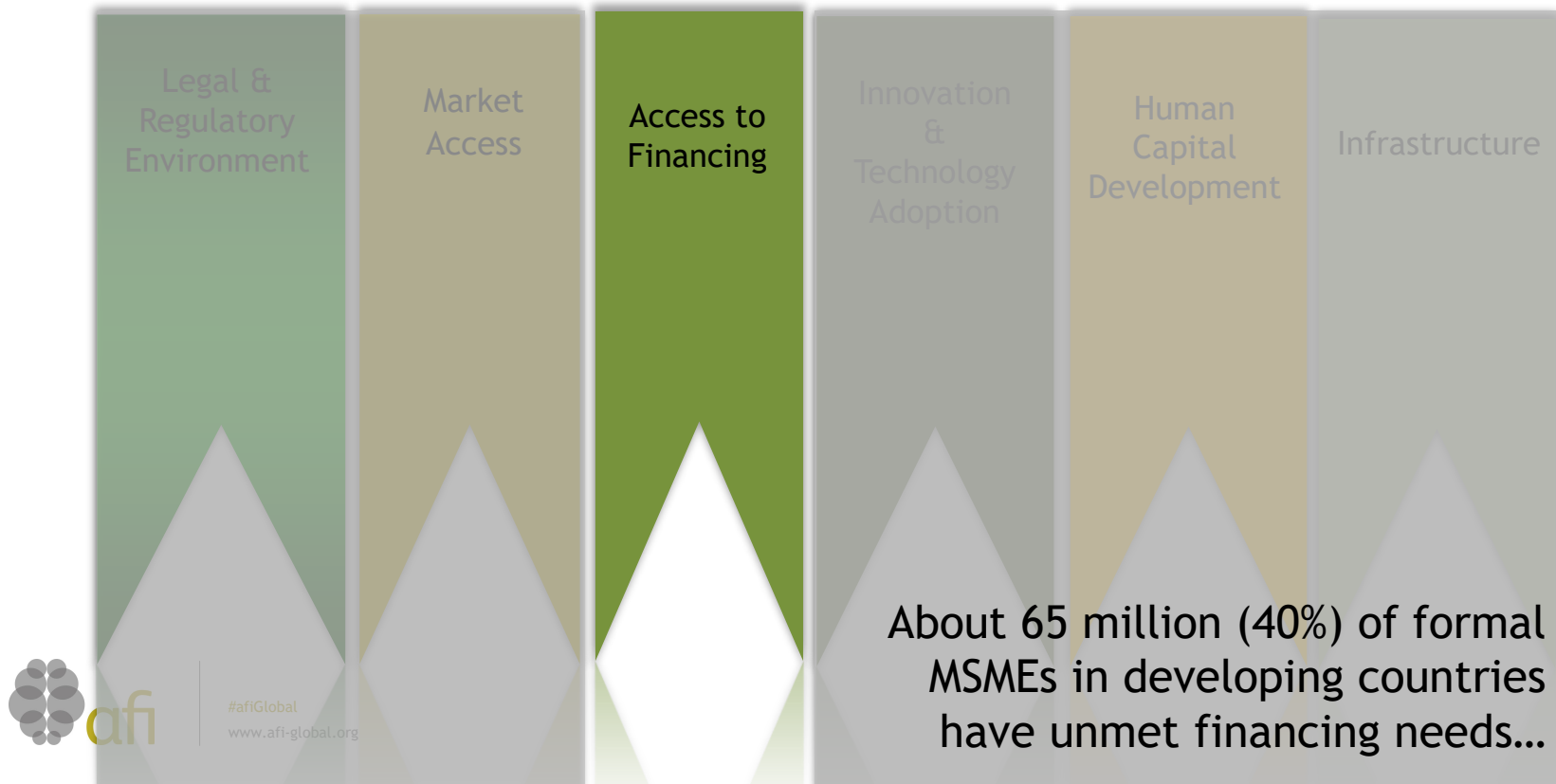
**GDP**



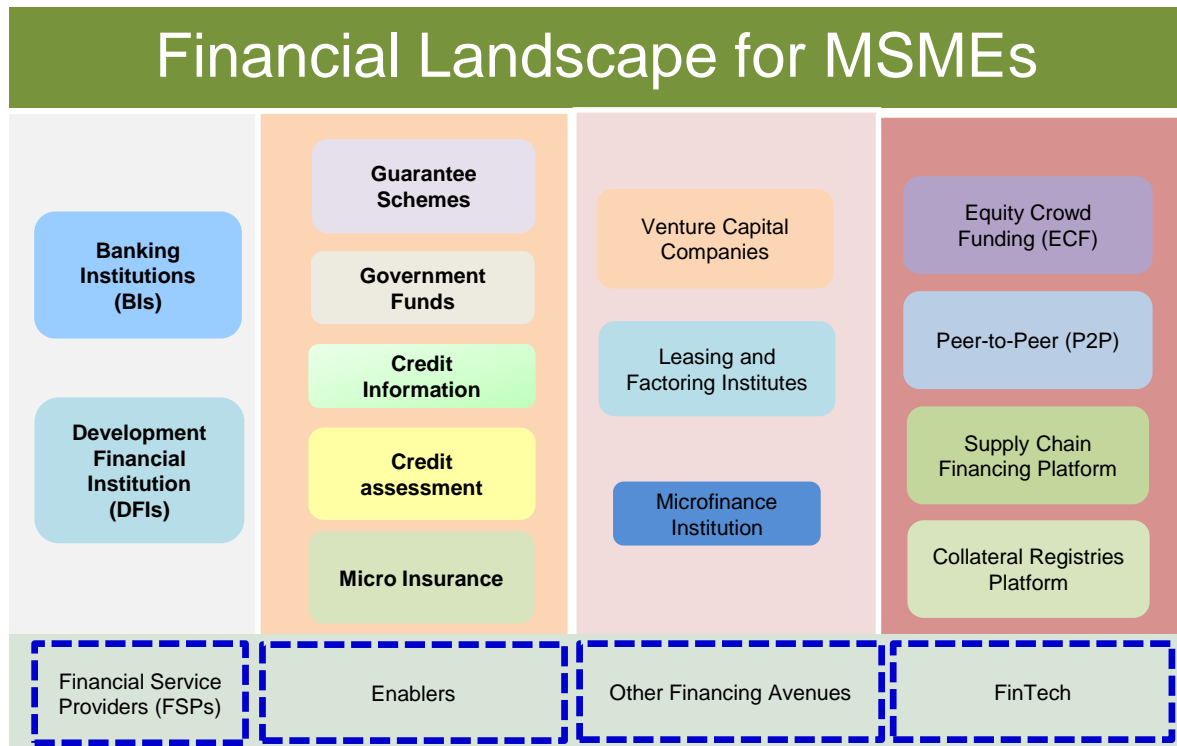
# Interventions for **SME growth** often include...



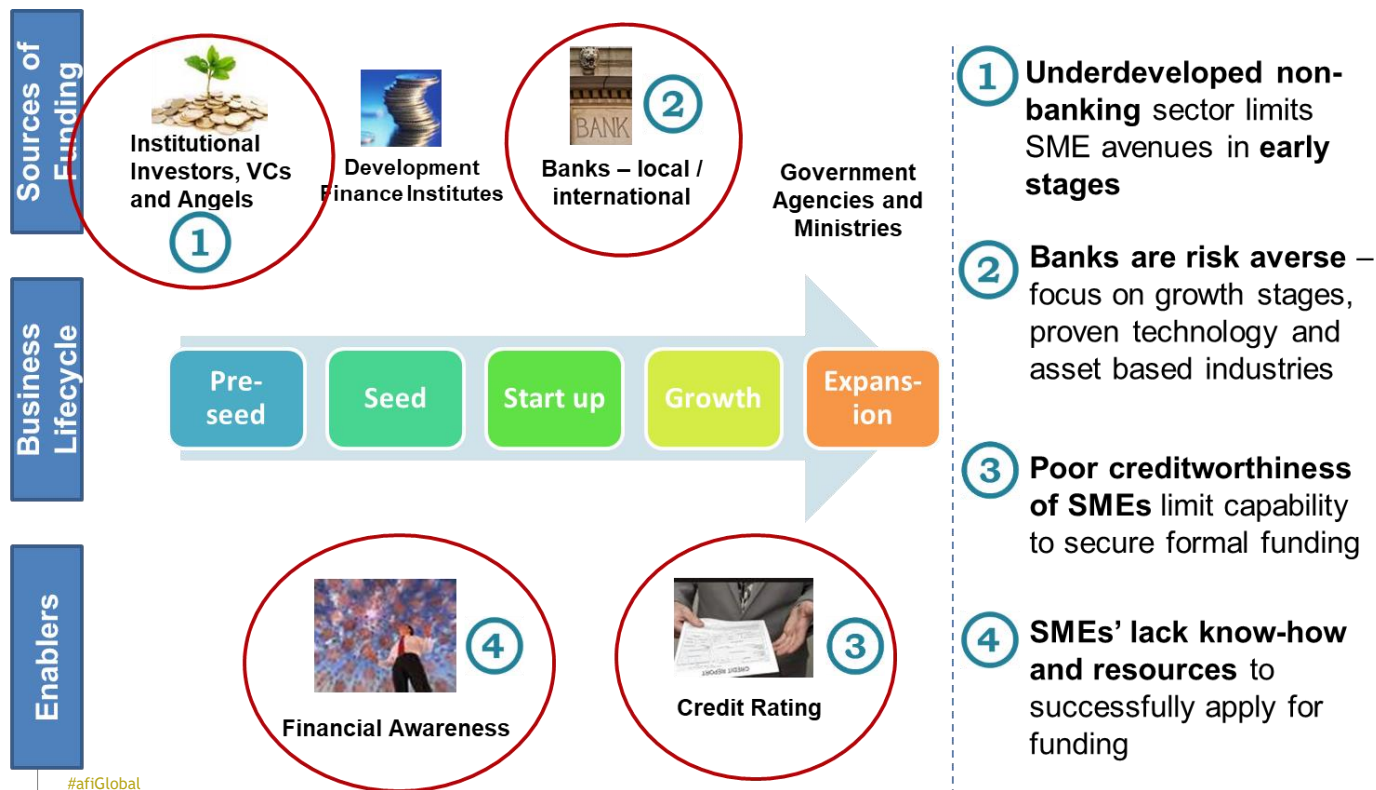
**Access to financing** is one of the main impediments for the growth....



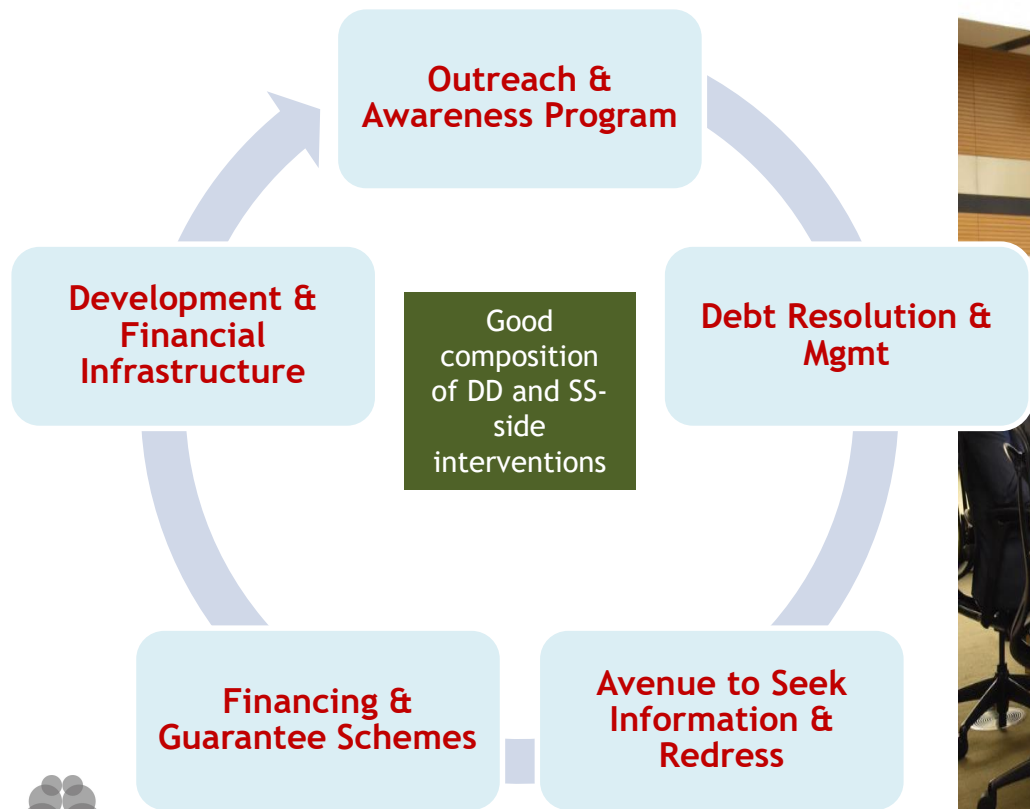
# Financing **landscape** for MSMEs



# Challenges related to Access to Financing.....



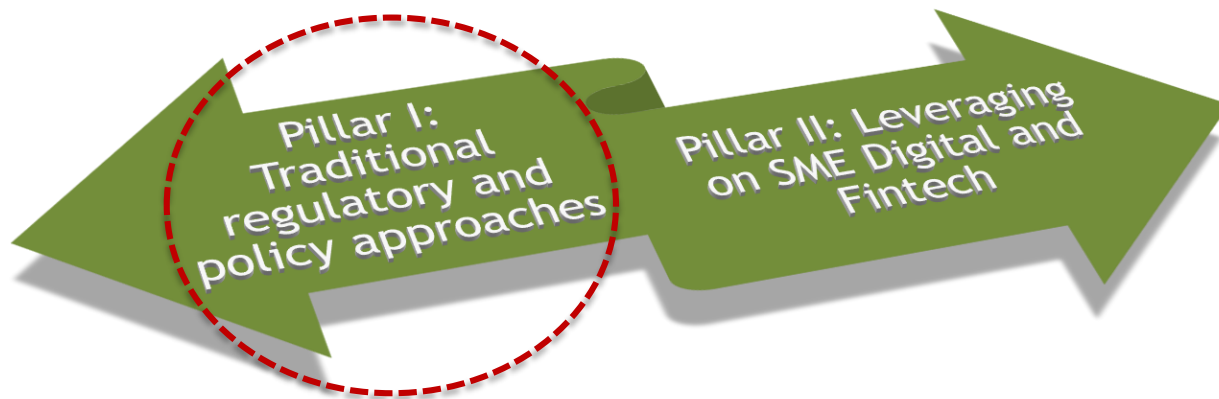
# Holistic Ecosystem for MSME Financing Development



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# How does **regulators** intervene...





# Pillar I: **Traditional** Regulatory and Policy Approaches

- Suggest complementary interventions for the Governments to address some of the constraints and facilitate the broadening the access to finance for SME that cover:
  - Capital requirement, supervisory, proportionality
  - Financial sustainability
  - Risk management

# Pillar I: **Traditional** Regulatory and Policy Approaches-

## I. Improve or Build Sound Legal and Judiciary Infrastructure

- Legal and judiciary infrastructure, the focus should be on legislation that defines the right and responsibilities of both, DD and SS-side (MSMEs, FSPs, and other financial market participants (enablers), avoiding uncertainty or ambiguity in contracts, is a valuable of the financial infrastructure provided by government.
  - I. Supportive Regulations Regarding SME Banking, Leasing, Factoring, and Equity.
  - II. Insolvency regimes (Second-chance policy)

# Pillar I: **Traditional** Regulatory and Policy Approaches -

## II. Establish Prudential Regulations for SME Lending

- Strengthening prudential oversight of the financial sector is important to ensure stability
  - Without proper oversight, an expansion of credit to SMEs could imperil financial stability and destroy - rather than create - economic growth.
  - In contrast to simple expansions in household banking accounts, which pose no threat to stability, technological innovations in payments and credit markets call for better financial supervision.
  - Without accompanying prudential oversight, any gains from expanding finance to small businesses could be outweighed by a loss in stability (this equally applied to digital finance).
  - Eg: State Bank of Pakistan - Prudential Regulations for SME Financing, 31 Dec 2017 (updated)



# Pillar I: **Traditional** Regulatory and Policy Approaches -

## III. Build Effective Credit Infrastructure

- Strengthening Enablers and Credit Infrastructures:
  - Credit Guarantee Fund
    - Guarantee funds are a typical policy instrument in many countries to help SMEs get access to credit and can play an important counter-cyclical role in times of crisis.
    - “First-loss risk”
  - Credit Reporting System and Credit Bureau
    - Tier reporting based on the financing threshold
    - Assessment of credit scoring
  - Secured lending
  - Insolvency regime and debt resolution
  - SME Data
  - Collateral registries
    - Eg: Thailand- The Business Collateral Act B.E. 2558 (2015) became effective on 2 July 2016)
    - Online registration system of the Business Security Registration Office allows financial institutions to register security interests

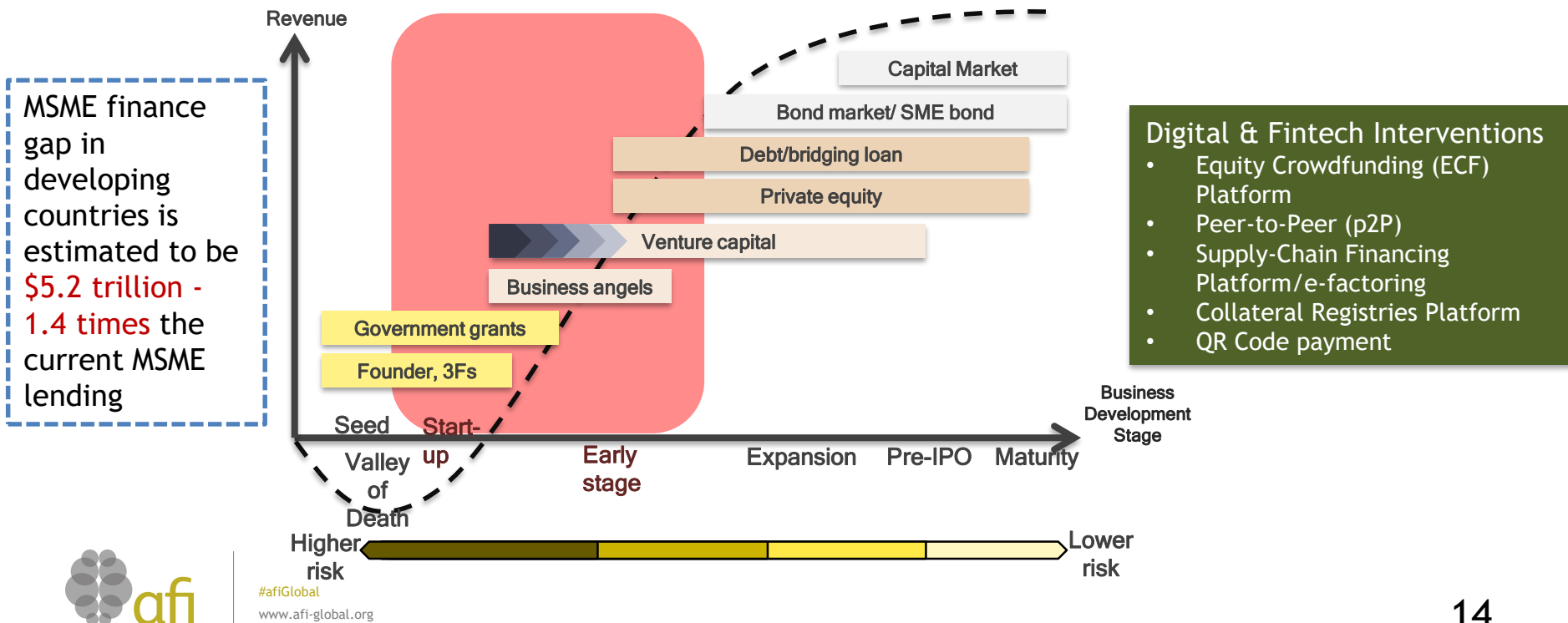


# Pillar I: **Traditional** Regulatory and Policy Approaches -

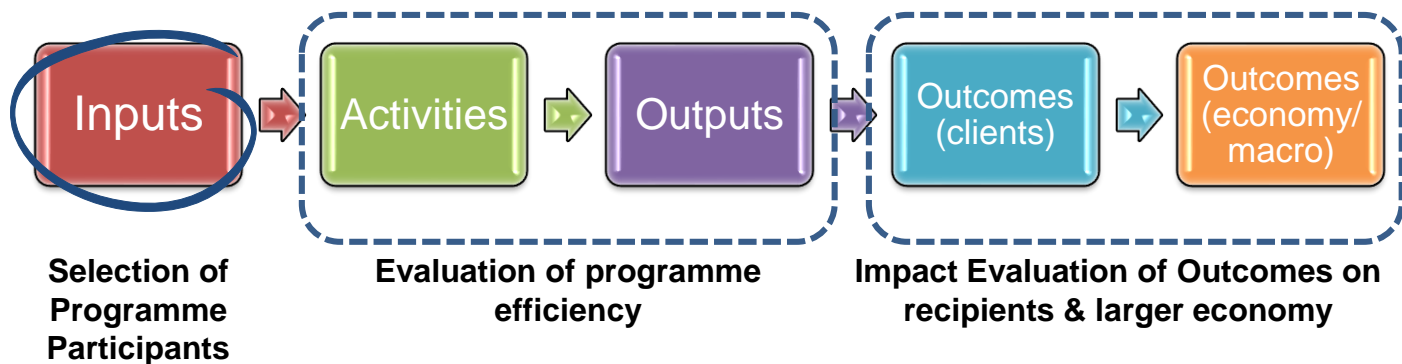
## IV. Targeted Direct Interventions, Bridging Market Imperfections

- From a policy perspective, it is important to facilitate the development of a wide range of instruments that could serve MSMEs' need in different stages of their development.
- As to targeted interventions, regulator should apply industry-wide best practice principles - engage from the DD-side, eg: trade/SME associations

# MSMEs require **different** form of financing assistances

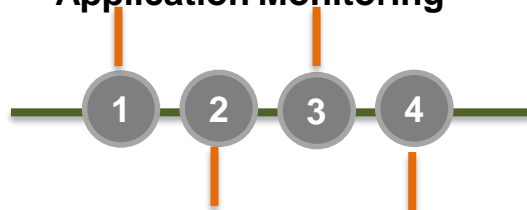


# M&E to track progress of interventions- (Policy to Program/Activity)



## Main steps for M&E

### Application Monitoring



**ScreeningPost Programme**

# Conclusion:

- Address MSME financing gap by facilitating smart policy framework for MSME Access to Financing
- Understand the existing financing landscape and identify the challenges of access to financing (DD & SS-side)
- Two Pillars of interventions via traditional policy approaches and leveraging on MSME data and fintech
- Traditional Regulatory and Policy Approaches
  - Improve or Build Sound Legal and Judiciary Infrastructure
  - Establish Prudential Regulations for SME Lending
  - Build Effective Credit Infrastructure
  - Targeted Direct Interventions, Bridging Market Imperfections
- M&E to track progress of interventions- (Policy to Program/Activity)





THANK YOU

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