

Parallel Activities of ASEAN-BAC 2019

Financial Inclusion Driven by Digitalization Trade and Supply Chain

Next Generation Credit Information

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In most emerging markets, small and medium enterprises, or SMEs, lack access to the credit and liquidity they require for their daily working capital needs. This is partly due to the fact that the credit risk of such businesses is typically difficult to assess, and their working capital needs are unpredictable. In most countries, these businesses operate primarily in the retail and wholesale trade segments, and banks have generally not done enough to finance their domestic or international trade operations, especially open account transactions. Supply chain finance structures offer an alternative solution to finance the trade flows of these enterprises, with benefits for all stakeholders, including large enterprises, their SME trade counterparts, and financial institutions. This type of financing helps banks extend working capital finance to SMEs by leveraging commercial and trust relationships between the SMEs and the corporates; it helps large corporates improve their working capital management and decreases supply chain disruptions; and it enables banks to better assess, measure, and manage risks of extending financing to SMEs. However, unavailability of data, fragmented data, and incomplete credit bureau coverage of MSMEs is an important bottleneck inhibiting the flow of formal financing to the MSME sector.

A robust credit information framework provides the basis for fact-based. The 21st century brings opportunities that can help SMEs overcome barriers to their growth and expansion. Advances in technology and digitalization have made it possible for more SMEs to access global markets and supply chains. Lower costs and more efficient ways of communicating, getting information, producing goods, providing services, marketing and distribution are enabling SMEs to reach levels of competitiveness that a few decades ago were thought beyond their reach. Many of today's largest and most valuable companies spearheading the new industrial revolution represent the new breed of successful enterprises that were mere start-ups only a generation, some even just a few years ago.

