

# SME Development Council Newsletter



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# MESSAGE FROM THE SME DEVELOPMENT COUNCIL CHAIR – GEORGE ABRAHAM

Dear Esteemed Members,

I am pleased to share the latest newsletter of the SME Development Council. As we look back on the past year, I am proud of the Council's achievements in supporting the growth and development of SMEs in the Asia-Pacific region.

Micro-, Small, and Medium-sized Enterprises (MSMEs) in the Asia-Pacific region hold great potential, yet they face significant challenges due to economic volatility, uncertainty, and disruptive market forces. Addressing these challenges is essential for the overall prosperity and well-being of our communities and economies.

This newsletter highlights the challenges and opportunities facing MSMEs today, with a particular focus on digitalization, sustainability, and inclusivity. We explore how digital tools and technologies can help MSMEs, including those led by women and Indigenous entrepreneurs, to enhance productivity, innovation, and market reach. We also look at how fintechs can assist small businesses in adopting sustainable practices and how MSMEs can contribute to achieving the UN Sustainable Development Goals.

I encourage you to take some time to read through this informative newsletter.

In addition, I look forward to connecting with all members at the 38th CACCI Conference in Singapore, scheduled for November 11-12, 2024.

As we look to the future, I am confident that the SME Development Council will continue to be a driving force for positive change and growth across our CACCI member countries. Together, we can build a stronger, more vibrant, and inclusive business community that benefits all.

Thank you for your continued support of the SME Development Council.

Yours in service,

**George Abraham**

SME Development Council  
Chair



# WHY CLOSING THE SMALL BUSINESS PRODUCTIVITY GAP CAN CREATE ENORMOUS VALUE FOR ECONOMIES



## **World Economic Forum**

- Olivia White | Chief Director, McKinsey Global Institute,  
Senior Partner, McKinsey & Company

- Anu Madgavkar | Partner, McKinsey & Company

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Micro, small and medium-size enterprises (MSMEs) play an underappreciated and outsized role in the global economy.

They account for 90% of all businesses, half the value added, and more than two-thirds of business employment. In Indonesia, for example, they account for almost 90% of employment and two-thirds of value added. Small businesses also inject dynamism into economies.

Many large companies of today were MSMEs not long ago. About one in five of today's very large companies – defined as having a market capitalization of more than \$10 billion in the United States and equivalent values in other economies – were MSMEs at some point after 2000 and have since powered their way to large company status.

Yet small businesses struggle with productivity in comparison with large companies. Raising MSME productivity has long been an aim of governments who recognize their central role in economic growth and employment.

## **Benefits of narrowing the MSME productivity gap**

McKinsey Global Institute's recent [A microscope on small businesses: Spotting opportunities to boost productivity](#) report analysed MSMEs in 16 economies and found that narrowing the productivity gap could represent value equivalent to 5% of gross domestic product in advanced economies and 10% in emerging ones. The question is how best to capture that value.

Overall MSME productivity is only half that of large companies, and less in emerging economies. In India and Indonesia, for example, small businesses are only one-fourth as productive.

## MSME productivity lags behind that of larger firms across countries, with a wider gap in emerging economies.

Productivity, value added per worker, \$ thousand (PPP),<sup>1</sup> countries ordered by overall MSME productivity

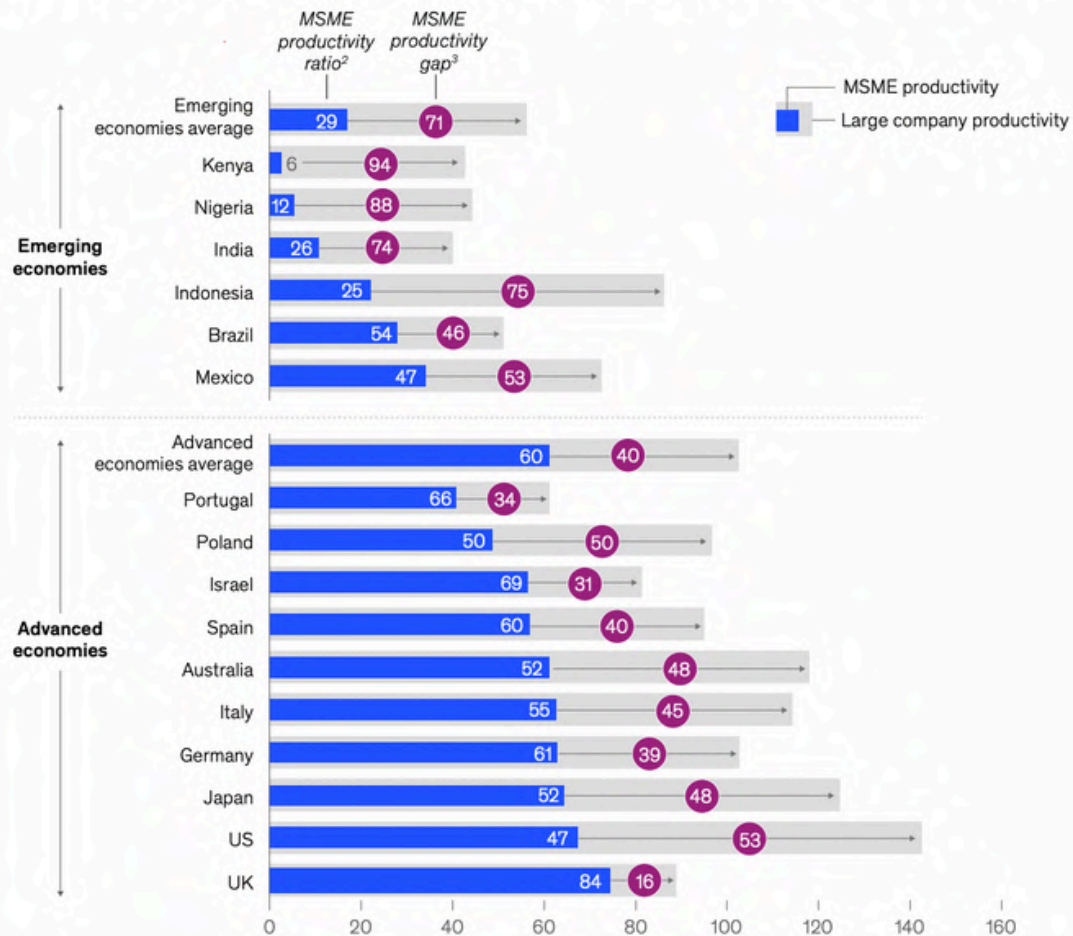


Image: McKinsey Global Institute.

For notes and sources, see Exhibit 5, "[A Microscope on small businesses: Spotting opportunities to boost opportunities.](#)" McKinsey Global Institute, May 2024.

But this is very much an average. In truth, productivity performance varies enormously widely amongst MSMEs depending on the country in which they operate, the sector and even the subsector.

In India, for instance, MSMEs in the manufacturing sector achieve 14% of the productivity of large companies, whereas in administrative services, their productivity is 32%. Conversely, in Indonesia, small businesses in manufacturing are 40% as productive as their large counterparts, but only 10% as productive in administrative services.

How the MSME does business is important, too. Business-to-business MSMEs that interact closely with other companies, often larger ones, have a 40% smaller productivity gap with those larger enterprises than business-to-customer MSMEs that sell primarily to individuals –in five sectors that offer the most potential value.

Indeed, being part of a business network is a major factor in MSMEs' productivity performance – but also in the performance of the large companies in their networks. Looking around the world, in two-thirds of subsectors, the fortunes of MSMEs and large companies are correlated and go hand-in-hand: a win-win.

Take the trade sector in Japan as illustration. In automotive trade, Japan's MSMEs are more vertically integrated with large manufacturers than in many other advanced economies, including the US. This enables them to have more efficient logistics that follow just-in-time principles and respond effectively to market fluctuations.

They are top-quartile productivity performers. But in retail and wholesale trade – excluding automotive trade – vertical integration appears to be weaker, and Japan's MSMEs fall into the bottom two quartiles of relative performance.

## **How to tackle the MSME productivity problem**

These findings have three important implications for how to tackle the MSME productivity problem:

### **1. Creating the right economic fabric is important**

Given evidence that MSMEs and large companies tend to thrive most when they are interconnected, it may well be that stakeholders – including policy-makers, regulatory bodies, associations and large companies – need to foster the right enabling conditions for the growth and prosperity of all enterprises. And that means going beyond conventional policies focused on MSMEs, such as facilitating their access to credit and encouraging training.

It may be preferable to aim for “collective productivity” by taking action to strengthen networks and interactions between large and small businesses where large companies lead on productivity and smaller ones lag behind. Where small businesses outperform while larger ones do not, there would be benefit in enabling those small enterprises to evolve into large ones or merge with them to promote business dynamism.

When both large and small companies lag behind their peers, more fundamental steps to improve the economic fabric as a whole may be needed; for instance, investing in physical and digital infrastructure, establishing transparent and fair regulatory frameworks that boost competition, reducing trade barriers, and ensuring equal access to financial capital.



## **2. Prioritization can pay off**

Stakeholders first need to decide which economic domains to focus on to make MSMEs more productive. It is notable, for instance, that in virtually all the countries studied, eight subsectors out of 24 drive more than 60% of the value potential in manufacturing, but the top ones vary by country.

For example, if we compare Indonesia and Australia, there are important differences. Manufacturing of basic metals, chemicals, rubbers and plastics, and food products are important sources of value in both economies.

But in Indonesia, the apparel manufacturing subsector appears to offer meaningful value, whereas in Australia the textiles subsector is a sizable opportunity. For Indonesia, electrical equipment and automotive manufacturing would be higher priorities, but in Australia the comparable subsectors would be machinery and equipment, and fabricated metal.

It may make sense to prioritize those subsectors in the first instance. Failing to prioritize which opportunities to pursue can lead to a dilution of efforts and place a burden on the often-limited resources at hand. Some countries have selected and supported “national champion” sectors, as has happened with beverage manufacturing in Italy, automotive manufacturing in Japan, and research and development in Israel.

Such prioritization requires meticulous identification of the nation’s competitive advantages and a keen eye for demand trends, as well as allocating resources toward innovation, facilitating access to capital, and cultivating supportive networks.

## **3. A granular and tailored approach matters**

Measures designed to help MSMEs improve their performance tend to be broad and apply across sectors and businesses. But the detailed lens of McKinsey Global Institute’s research reveals that dynamics and needs differ widely by subsector. Therefore, stakeholders may need to design a tailored menu of measures based on a microscopic approach.

In a world beset by uncertainty amid geopolitical tensions and shifts in manufacturing and services footprints, it is a priority to raise the game of the world’s MSMEs. The potential is large, but it is only likely to be captured with a granular understanding of MSME productivity, and a targeted set of actions that can create a win-win for all companies, small and large.

# ACCELERATING SUSTAINABILITY REPORTING IN ASIA AND THE PACIFIC

## **UNESCAP**

- Tientip Subhanij | Chief, Sustainable Business Network
  - Ben Soh Managing Director, STACS
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This year sees a rise in mandatory Environmental, Social, and Governance (ESG) reporting regulations and requirements, extending to not just listed companies but also non-listed smaller companies. KPMG reports almost 50,000 companies being subjected to mandatory sustainability reporting starting in 2024. Given that small and medium-sized enterprises (SMEs) account for more than 90 per cent of businesses in the Asia-Pacific region, both Multinational Corporations (MNCs) and SMEs that support global supply chains must take action and align with regulations. This is especially imperative amidst looming deadlines for sustainability reporting across Asia and the rise in sustainable procurement.

From the ideation two years ago, and now having over 300 badge achievers and multiple real-life use cases in empowering businesses across Asia to achieve various sustainability outcomes – the Green Deal for Business is going from strength to strength.

### **Calculating GHG emissions and simplifying sustainability reporting**

To support businesses and SMEs across Asia and the Pacific to kickstart their corporate sustainability and ESG reporting journey, the ESNB Green Deal digital assessment was created to provide a free simplified, online ESG enabler tool for businesses to lower their barriers to sustainability and amplify their ESG profiles regionally and globally. Given SDG 13 on climate action required the most attention, the Green Deal program significantly promotes climate actions among the private sector by awarding businesses with Green, Silver, and Gold badges to recognize their commitment to sustainability.

Businesses can easily calculate their GHG emissions with ESGpedia's GHG calculator, which is built in accordance with the GHG Protocol and ISO14064 methodologies, and localised across countries in the Asia Pacific. The assessment is also aligned and scalable to international reporting standards such as GRI, ISSB, and more.

## **Allowing businesses to do well by doing good**

By taking the first step towards creating their ESG profile and understanding their current ESG standing, businesses can then start their decarbonization pathways and manage their supply chain sustainability, setting themselves up for greater opportunities and benefits such as lower interest rates through sustainable financing.

As of March 2024, the digital platform has presence across 18 countries, with over 300 ESN Green Deal badge achievers across Asia-Pacific.

Over the year, many businesses have shared how the Green Deal Digital Platform on ESGpedia has supported their corporate sustainability and ESG reporting journey. Here are some of the examples.

Indonesian Gold badge achiever Modalku | Funding Societies, the largest unified SME digital finance platform in Southeast Asia, shares that the digital platform provided them with “an understanding of the disclosure requirements and insights that will help [them] when encouraging the SMEs in [their] ecosystem to disclose ESG data.”

Representing the security and logistics sector in Singapore, Silver badge achiever AETOS, member of the Surbana Jurong Group, benefits from the assessment by being able “to track vehicle emissions and benchmark them against recommended industry standards, providing immediate access to emissions data.”

Thai Gold badge achiever Electricity Generating Authority of Thailand (EGAT), a state-owned enterprise in Thailand, shares that the digital ESG enabler tool “not only benefits EGAT but also [their] partners, as [they] collectively assess [their] performance across five key pillars, facilitating a comprehensive self-evaluation process.”

### **Use case: Enhanced access to sustainability-linked loans**

In November 2023, OCBC successfully extended a S\$16 million Sustainability Linked Loan (SLL) to global textile and apparel manufacturer, Ghim Li (silver badge achiever), through a fully digitalised and streamlined process on the ESGpedia platform.

The streamlined process involves digital collection of data on ESGpedia via the ESN Asia-Pacific Green Deal digital assessment, which is then independently verified by global leader in testing, inspection and certification services, Bureau Veritas (an ESGpedia marketplace partner).



### **Use case: Better management of supply chain sustainability**

Companies have utilised ESGpedia to track ESG certifications and data points, as well as ensure that suppliers within their supply chain hold accredited ISO certifications. This helps large corporates monitor the sustainability of their suppliers and ensure that they only procure from suppliers that align with their corporate sustainability requirements.

Suppliers can create their ESG profiles through the ESN Green Deal for Business platform and amplify it to current and potential stakeholders and customers to prove their commitment to sustainability.

The private sector, especially SMEs, is expected to play a critical role by leading the region's green transformation. With an already extensive and growing Asian ecosystem and partnership, the ESN Green Deal for Business on ESGpedia allows companies with ESG profiles to benefit from its unique network effect to attain better business opportunities regionally, future-proof against upcoming ESG regulations, and set a clear transition pathway towards Net Zero. The need for more and faster action to combat the climate change crisis is long overdue, we therefore encourage all businesses to start today by creating your ESG profile and accelerating your sustainability journey.

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## **MSMES & GREEN FINANCE: HOW FINTECHS CAN HELP SMALL BUSINESSES ADOPT SUSTAINABILITY**

### **The Economic Times**

Ashish Pandey| Editor, The Economic Times

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MSMEs are major contributors to economic growth, employment as well as exports. But they also have a significant environmental footprint and no real solutions to tackle it.

Green finance is one of the most fundamental requirements to make MSMEs more climate-friendly. Many small and medium businesses face challenges in raising capital to run and expand their businesses.

So their challenge becomes steeper when it comes to raising funds to invest in cleaner technologies, energy efficiency upgrades and sustainable business practices. But now, fintech is working on developing innovative solutions for MSMEs to make the transition to greener processes.

“The solutions aim to simplify the process of integrating sustainable practices into business operations and make it easier to secure necessary funding. For instance, deep tier supply chain finance (DTSCF) leverages advanced data analytics to provide visibility into the environmental, social and governance (ESG) performance of supply chains. This allows MSMEs to effectively demonstrate their sustainability efforts and access preferential financing rates while mitigating reputational risks,” says Raja Debnath, Managing Director, Veefin Solutions.

Gurjodhpal Singh, CEO, Tide in India, says while MSMEs form the backbone of the country’s economy and are also important contributors to job creation, these businesses also have a significant environmental footprint, for which they require green finance.

“It is one of the most fundamental prerequisites for making MSMEs more climate-friendly. Many of these businesses face challenges in raising the capital needed to invest in cleaner technologies, energy efficiency upgrades and sustainable business practices. Lack of access to affordable financing options is another key barrier preventing wider adoption of climate-smart solutions among these MSMEs,” adds Singh.

### **MSMEs & ESG criteria**

Stakeholders say that sustainability has evolved from a mere catchphrase to an essential component in today's corporate landscape. Integrating sustainable practices into business operations is the key to achieving long-term success, as well as fulfilling our environmental and social responsibilities, they add.

“Financial institutions today are increasingly prioritising sustainability as a criteria when allocating capital,” says Debnath. “Veefin’s DTSCF solution is promoting ESG compliance by enabling financial institutions to ensure sustainability and ethical business practices. Through DTSCF, there is greater visibility into the practices of corporate borrowers and their extended supply networks. By integrating ESG factors into their operations, MSMEs can identify and mitigate various risks, such as regulatory compliance, reputational risks and supply chain risks, ensuring that sustainable finance fosters the development of responsible businesses.”

Stakeholders say MSMEs that are working in tandem and prioritising sustainable practices are more likely to access funding on favourable terms.



# CONCEPT NOTE - HUMAN-CENTERED IMPACT: ADVANCING THE UN SDGS THROUGH MSMEs

**The United Nations**

Concept Note for Geneva event

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As we steer our ship into a New Development Course in a Changing World, the importance of Micro, Small, and Medium Enterprises (MSMEs) and the circular economy is crystal clear. MSMEs, which account for 90% of businesses, more than 70% of employment, and 50% of GDP worldwide, remain the core of the economy for most societies.

The United Nations General Assembly designated June 27 as "Micro-, Small, and Medium-sized Enterprises Day" (A/RES/71/279) to raise awareness of the tremendous contributions of micro-, small and medium-sized enterprises (MSMEs) to the achievement of the United Nations Sustainable Development Goals (SDGs). Together with MSMEs and entrepreneurs, we can reach the SDGs.

## **The Circular Economy - A Paradigm Shift with a Human-Centered Approach and MSMEs' Role**

A human-centered approach is central to the evolving 'circular economy,' emphasizing the importance of individuals and communities in driving sustainable transformation. Considering people's well-being and prioritizing inclusive participation ensures that new systems align and contextualize local culture and personal/institutional needs. The circular economy represents a transformative framework to eliminate waste while fostering continuous resource utilization and social and economic development.

Replacing the linear 'take-make-waste' model, the circular economy relies on a closed-loop principle that focuses on human-centered product design, durability, reusability, remanufacturing, and recycling. Micro, Small, and Medium Enterprises (MSMEs) are vital in this paradigm shift. It includes the green and blue economies, which are the base for sustainability and make for a more liveable planet. As crucial drivers of local economies, they are uniquely positioned to incorporate circular practices into their operations. By leveraging their agility and local knowledge,

MSMEs can adopt innovative business models prioritizing sustainability and profitability while enhancing productivity and responding to local communities' needs. Their role in designing people-oriented products and services underscores the importance of resilient, sustainable enterprises that meet environmental goals and community needs.

### **The UN SDGs and Circular Economy**

The Circular Economy concept intersects with multiple Sustainable Development Goals (SDGs), notably SDG 12 (Responsible Consumption and Production). It promotes sustainable practices by emphasizing efficient resource use, waste reduction, and recycling. SDG 9 (Industry, Innovation, and Infrastructure) is also relevant as the Circular Economy encourages innovation in production processes and technology to create more sustainable systems. Moreover, SDG 13 (Climate Action) is addressed through the Circular Economy's focus on mitigating climate change impacts by reducing resource extraction and disposal emissions. Furthermore, SDG 7 (Affordable and Clean Energy) is supported as circular practices optimize energy use and promote renewable energy sources. SDG 8 is about "decent work and economic growth" in which workers, in cooperation with employers, can jointly implement a Circular Economy model that drives growth and productivity. In the SDG 11 (Sustainable Cities and Communities) context, the Circular Economy contributes to building more sustainable urban environments by minimizing environmental degradation and enhancing resource resilience. Lastly, the Circular Economy aids in achieving SDGs 14 and 15 (Life Below Water and Life on Land) by reducing pollution and waste generation, conserving ecosystems, and preserving biodiversity.

### **MSMEs Forward Together**

The circular economy and MSMEs are inherently linked through a shared commitment to sustainability and growth. By adopting a human-centered approach within the circular economy framework, MSMEs can survive and thrive amid uncertainties by aligning their products and services with people's needs and aspirations. MSMEs can lead the charge toward a sustainable and prosperous future with the proper support from governments, international organizations, and consumers. Governments and development partners can create an environment that supports MSMEs in their efforts to invest, trade, and thrive in global markets and harness the related development benefits.

The journey is long and challenging, but unity, innovation, and resilience will help us reach our destination. As we celebrate Micro, Small, and Medium Enterprises Day, let's reaffirm our commitment to supporting these agents of innovation, growth, and sustainability. Together, with a human-centered mindset, we can shape an economically prosperous and environmentally sustainable future.

**"The future depends on what we do in the present." - Mahatma Gandhi**

# WITH INCREASED DIGITISATION, ASIA-PACIFIC'S MICRO BUSINESSES HAVE SHIFTED TO GROWTH MODE

## The Business Times

Previn Pillay | Visa's head of merchant sales and acquiring, Asia-Pacific.

Small and medium businesses (SMBs) are a vital lifeline of the global economy. Worldwide, they represent 90 per cent of businesses and 50 per cent of employment and are often the cornerstones of growth and innovation.

In Asia-Pacific, their impact is even bigger. SMBs account for over 97 per cent of all businesses and employ over half of the workforce across Asia Pacific Economic Cooperation economies. They contribute significantly to economic growth, with their share of gross domestic product ranging from 40 per cent to 60 per cent in most countries.

Asia Pacific's micro-businesses are also on the rise, with a new generation of digital-first micro-businesses that includes millions of creative individuals in the fast-growing creator economy.

Small businesses have shifted firmly into growth mode. Increased digitisation in key areas like services, logistics and payments has enabled this segment to reach new audiences and improve efficiencies.

Such payment advancements have allowed small businesses to access markets and opportunities that were not previously possible.

Here are five reasons why 2024 is shaping up to be a huge year for small businesses:

### **Rise of social commerce and the creator economy**

By 2025, social commerce is expected to reach US\$1.2 trillion, including work driven by a new generation of digital-first online content creators.

This trend is further propelled by shoppable media and influencer content, empowering SMBs to engage consumers to make purchases directly through social media platforms or navigate to brand sites.

### **Growth through cross-border selling**

Technology and globalisation have upended the SMB landscape by providing them unprecedented access to global audiences. In fact, 79 per cent of surveyed SMBs by Visa expressed a strategic focus on cross-border selling for their growth initiatives.

The proliferation of e-commerce platforms, particularly in the Asia-Pacific region, also plays a pivotal role.

With integrated payment systems seamlessly connecting buyers from Switzerland to sellers in Sri Lanka, the prospect of selling to consumers on the opposite side of the globe is no longer a distant aspiration for SMBs.

The accessibility offered by these platforms diminishes geographical barriers, expanding the horizons for micro businesses and fostering a more interconnected global marketplace.

### **Small businesses take flight with travel rebound**

SMBs are vital to the travel industry, making up 80 per cent of businesses in the sector, and they directly benefit from the post-pandemic travel rebound.

With business travel expected to surpass pre-pandemic spending levels in 2024, SMBs across food and beverage, tour guides and home-share operators should be well-positioned to capitalise.

To fully harness the potential of this travel rebound, SMBs should not only focus on optimising their payment processes but also tailor their offerings to meet the evolving needs and preferences of the post-pandemic traveler.

This includes embracing digital payment methods favoured by modern travelers and implementing secure and efficient transaction systems.

Moreover, by ensuring their systems can accept payments from inbound tourists, businesses pave the way for the next crucial step in enhancing their financial capabilities – embracing payment interoperability.

### **Payment interoperability, acceptance are top priorities**

In a landscape where user experience is king, SMBs must prioritise offering a seamless and secure consumer payments experience.



It is particularly critical to address potential points of friction in the payments process because users may abandon their online shopping cart if faced with difficulties in completing their purchase leading to missed opportunities that SMBs can ill-afford.

SMBs today have a multitude of options for receiving payments, ranging from digital wallets and cards to account-to-account transfers.

In order to thrive in this evolving ecosystem, SMBs must prioritise implementing a compelling and user-friendly checkout experience, and partner with banks and fintech providers that offer advanced technologies to do so.

In addition, ensuring the safety of transactions with technologies such as tokenisation, biometrics, EMV chips, and predictive analytics play a crucial role in fortifying security measures, providing SMBs with the necessary tools to safeguard their financial transactions and customer data.

### **Big tools no longer just for big businesses**

While SMBs typically adopt a gradual approach to digitalisation, unlike larger companies who are pack leaders, this is set to change.

Over the next year, 91 per cent of SMBs said they are at least somewhat likely to consider available AI tools and services such as ChatGPT to help elevate their business against competitors.

This shift will not only help them reach new audiences but also improve their overall agility in streamlining their processes, enhance efficiency, and stay competitive.

The confluence of these trends signifies that 2024 is the opportune moment for small businesses to leverage digitalisation and payment innovations. Payments are no longer just transactional; they have become an integral part of every business' strategy for success and resilience.

As small businesses embrace these transformative shifts, they are not merely adapting to change. They are positioned to thrive and redefine the future of commerce on a global scale.

# YOUR QUESTIONS ANSWERED: HOW CAN FINTECH HELP SMALL BUSINESSES IN ASIA AND THE PACIFIC?

## **Asian Development Bank**

Lotte Schou-Zibell | Advisor, Finance Sector, Asian Development Bank

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**Lotte Schou-Zibell, a financial inclusion advisor for the Asian Development Bank, answers questions about how financial technology – fintech – can help fund micro, small and medium-sized enterprises in Asia and the Pacific.**

In many countries micro, small and medium-sized enterprises form the backbone of the economy, and employ most of the labor force. They are a particularly important way for women to earn incomes, often providing finance for their own and their children's education and healthcare. Despite their central role in the wellbeing of economies and families, many of these businesses face severe difficulties obtaining the finance and credit they need to grow. This leaves families worse off, and harms job creation. Addressing these financial barriers is crucial for fostering sustainable economic development in the region.

### **What are the main financial challenges for small businesses in Asia and the Pacific?**

Challenges faced by micro, small and medium-sized enterprises in accessing financial tools and credit include a lack of collateral, insufficient credit history, and the complexity of financial products that may not meet their specific needs. A lack of financial information, stringent regulatory requirements, and the high costs associated with processing small loans further complicate access to finance.

The Pacific region's legal and regulatory frameworks are generally underdeveloped, posing additional challenges for small businesses seeking credit for expansion. Traditionally, these small businesses excel in sectors like wholesale, retail, agribusiness, food processing, and other service-related industries. However, they frequently encounter difficulties securing financing, limiting their potential to expand or hire more employees.

## **How does limited access to finance impact the growth of micro, small and medium-sized enterprises in Asia and the Pacific?**

Limited access to finance and credit curtails the ability of micro, small and medium-sized enterprises in Asia and the Pacific to expand operations, enhance product offerings, or enter new markets, directly impacting their operational capacity—particularly for those with fluctuating revenue, which complicates cash flow management.

Inadequate funding prevents these businesses from embracing innovation and new technologies, which are essential for staying competitive in the market. This stunts their growth and affects the region's economic health and technological progress. Additionally, job creation, a critical function of small businesses, is adversely affected due to insufficient financing. Expansion and scaling, often reliant on credit, are vital to generating employment opportunities.

## **How can fintech solutions improve access to finance for micro, small and medium-sized enterprises in Asia and the Pacific?**

Fintech firms can enhance the growth and resilience of small businesses throughout Asia and the Pacific, especially in areas where traditional banking is less accessible. These companies can transform small business financing by prioritizing cash flow-based over asset-backed lending, which is crucial for businesses lacking substantial physical assets.

Digital lending platforms accelerate the process of assessing creditworthiness using algorithms and data analytics, facilitating quicker loan approvals with more relaxed criteria. Moreover, fintech enables small businesses to effectively participate in global and regional markets, boosting their competitiveness. This is supported by digital platforms that assist with business registration, market access, and integration into global value chains.

## **How is digital banking transforming micro, small and medium-sized enterprises in Asia and the Pacific?**

The digitization of banking tools is transforming these business sectors by making financial services more accessible and fostering innovative business practices. This transformation is evident in how these businesses increasingly use digital platforms for operations, transactions, and customer engagement.

In Cambodia, the Bakong system promotes financial inclusion among the unbanked and financially excluded businesses through a mobile payment and banking app that offers interoperability among e-wallets, mobile payments, online banking, and payment apps. This initiative has created a comprehensive payment platform that integrates a vast network of local banks and financial institutions, facilitating peer-to-peer transfers and enabling companies to manage sales more effectively through electronic payments in an increasingly digital environment.

**What role do artificial intelligence and cloud services play in the growth of micro, small and medium-sized enterprises in Asia and the Pacific?**

AI and cloud services are increasingly being used by small businesses in Asia and the Pacific, enhancing customer service, risk management, and operational efficiency. The vast potential of these technologies is being harnessed to drive business efficiency, scalability, and innovation.

For example, in the Philippines, Cantilan Bank has implemented cloud-based technology to enhance its financial services and extend them to the unbanked and underserved in remote areas. This demonstrates the transformative impact of cloud services in regions with limited traditional banking infrastructure.

Fintech solutions can help micro, small and medium-sized enterprises in Asia and the Pacific at all stages of their evolution. These solutions also provide benefits for the overall economy through the creation of jobs and increased incomes for the region's poorest communities.





# WORKING GROUP ON SMALL BUSINESS DISCUSSES WAY FORWARD POST MC13, WELCOMES 99TH MEMBER



## World Trade Organization

At its first meeting of the year, on 19 March, the Informal Working Group (IWG) on Micro, Small and Medium-sized Enterprises (MSMEs) considered possible topics for discussion in their future work. The Group welcomed the Democratic Republic of the Congo as a new participant, bringing the total number of WTO members taking part in the initiative to 99. Participants heard an update on the Trade4MSMEs platform, aimed at improving MSMEs' ability to trade internationally, and discussed various issues facing small businesses.

Timor Leste and Comoros, whose WTO membership terms were endorsed at the 13th Ministerial Conference (MC13) in Abu Dhabi in February, shared with the Group how issues related to small business were considered in their accession process and how WTO membership will support the sustainable development of MSMEs.

The International Trade Centre updated WTO members on the latest improvements to the Global Trade Helpdesk, a one-stop shop for information on trade opportunities, and future plans for its development, including the use of artificial intelligence to optimise the information provided through the platform and to make it more accessible to firms wishing to engage in international trade.

### **Post MC13**

The Coordinator of the Group, Ambassador Matthew Wilson (Barbados), recalled the useful discussion on inclusiveness at MC13 and the launch of various IWG documents before and at MC13, including a Compendium on Access to Finance by Women-led Small Businesses, a Compendium on MSME Authorized Economic Operators (AEO) Programs, and MSME and Policymaker Handbooks. He invited members to share their views on the direction of work in the coming two years.

Members expressed a keen interest in holding experience-sharing sessions to dive deeper into access to finance by women-led small businesses and AEO programs, with a view to providing more concrete guidance on these issues.

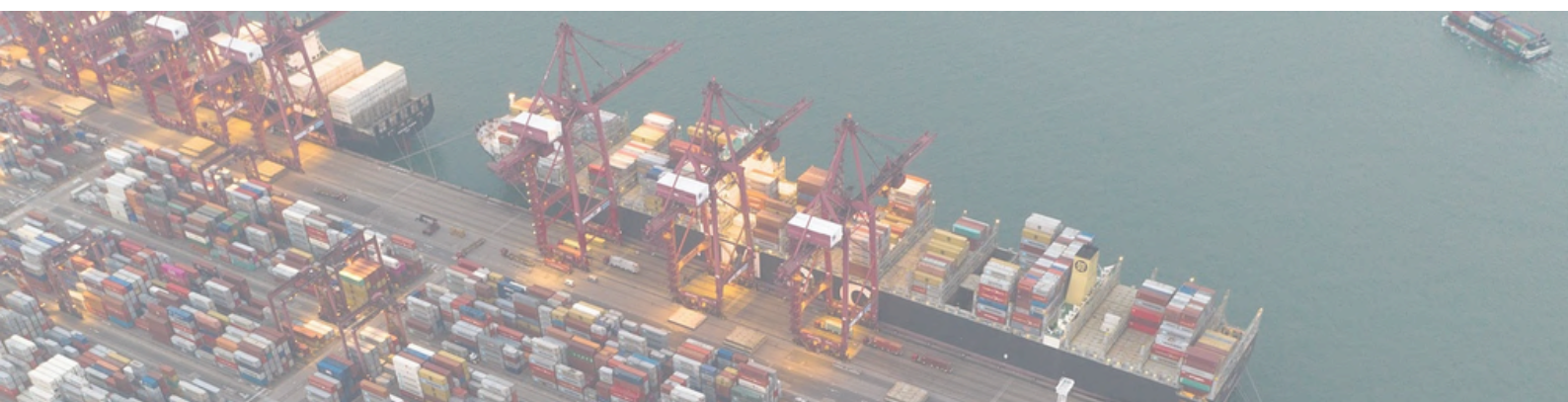
Other areas of interest highlighted at the meeting included trade digitalization, good regulatory practices, how to improve transparency for MSMEs, and further development of the Trade4MSMEs platform. Members also stressed the importance of hearing directly from small businesses and of strengthening dialogue with other international organizations working on MSMEs.

The meeting also discussed some of the difficulties faced by MSMEs in meeting sustainability reporting requirements. An owner of a small business, Ms. Kate Kallot, Founder and CEO of Amini, a company utilizing AI and space technologies to fill environmental data gaps in Africa, and Steven Capell, Vice-Chair of the United Nations Centre for Trade Facilitation and Electronic Business, highlighted the importance of accurate and reliable data in relation to sustainability requirements and the need to help MSMEs adhere to environmental standards.

As part of the Group's ongoing efforts to engage with the private sector and other stakeholders, members heard from the United Nations Conference on Trade and Development on its recent report titled Promoting International Investment by Small and Medium-sized Enterprises, which addresses ways to maximize the development impact of foreign direct investment targeting small business.

The Group also heard presentations from the Universal Postal Union and the World Trade Centre Association on their work related to small business.

The Institute of Export and International Trade updated the Group on its ongoing work and presented the recipient of its 2023 International Trade Award for Micro-business, Bob Gokani, owner and inventor of EziDrops, a small UK manufacturer of devices for eye and ear drops. Mr Gokani shared the key challenges he faced when trying to trade internationally, in particular the difficulty of having to deal with different regulations in different countries.





# BREAKING BARRIERS: THE EMERGENCE OF DIGITAL E-COMMERCE PLATFORMS FOR WOMEN-LED MSMEs

## **Digital Frontiers Institute**

Upul Batagoda | International Development Specialist



In recent years, the entrepreneurial landscape has witnessed a remarkable shift towards digitalisation, with e-commerce platforms emerging as powerful tools for businesses to reach new markets and customers. Among the beneficiaries of this digital revolution are women entrepreneurs, particularly those running Micro, Small, and Medium Enterprises (MSMEs). These digital e-commerce platforms have proven to be transformative for women-owned businesses, offering unprecedented opportunities for growth, innovation and empowerment.

One of the key advantages of digital e-commerce platforms is their ability to break down traditional barriers to entry for women entrepreneurs. Historically, women have faced numerous challenges in accessing traditional markets due to factors such as limited access to capital, networks and resources. However, with the advent of digital platforms, these barriers are being dismantled, allowing women MSMEs to showcase their products and services to a global audience with just a few clicks.

Moreover, digital e-commerce platforms provide women entrepreneurs with greater control and flexibility over their businesses. Unlike traditional brick-and-mortar stores, which often require significant upfront investment and ongoing maintenance costs, online platforms offer a more cost-effective and scalable alternative. Women can set up their virtual storefronts, manage inventory, and process transactions from the comfort of their homes, eliminating many of the logistical challenges associated with traditional retail operations.

Furthermore, digital e-commerce platforms offer women entrepreneurs access to valuable data and insights that can inform their business decisions and strategies. Through analytics tools and customer feedback mechanisms, women can gain a deeper understanding of market trends, consumer preferences, and sales performance, enabling them to refine their offerings and optimise their marketing efforts for greater success.

In addition to facilitating business transactions, digital e-commerce platforms also serve as hubs for collaboration, networking, and learning. Many platforms offer built-in community features such as forums, discussion groups, and mentorship programmes where women entrepreneurs can connect with like-minded individuals, share experiences, and seek advice. These virtual communities provide a supportive ecosystem for women to learn from each other, collaborate on projects and access resources to further their business goals.

Moreover, digital e-commerce platforms empower women entrepreneurs to overcome traditional gender biases and stereotypes that may have hindered their participation in the business world. Online marketplaces provide a level playing field where success is determined by the quality of products and services rather than gender. This newfound equality encourages women to pursue their entrepreneurial aspirations with confidence and ambition, knowing they have an equal opportunity to succeed in the digital marketplace.

Despite the many benefits of digital e-commerce platforms for women MSMEs, challenges remain in ensuring that these platforms are truly inclusive and accessible to all. Issues such as digital literacy, internet connectivity, and access to financial services can pose barriers to entry for women entrepreneurs, particularly those in low-income or rural areas. Addressing these challenges will require concerted efforts from governments, policymakers, technology providers, and civil society organisations to ensure women have the support and resources they need to thrive in the digital economy.

In recent years, the digital landscape has seen a surge in e-commerce platforms, offering unprecedented opportunities for grassroots women entrepreneurs. These platforms, such as Amazon, Etsy, Shopify, eBay, and Alibaba, provide avenues for MSMEs to showcase their products, reach global markets, and establish linkages. Amazon's vast marketplace and fulfilment services, Etsy's focus on handmade items, Shopify's user-friendly storefronts, eBay's auction-style listings, and Alibaba's global reach are just a few examples of platforms available to women entrepreneurs. Each platform offers unique features and tools tailored to the needs of MSMEs, empowering women to leverage digital commerce for economic empowerment and community development. As the digital economy continues to evolve, it is essential for women entrepreneurs to explore these platforms and harness their potential to unlock new pathways to success.

Digital e-commerce platforms represent a powerful force for women's empowerment and economic inclusion. By providing women entrepreneurs with the tools, resources, and opportunities they need to succeed, these platforms are reshaping the entrepreneurial landscape and unlocking new pathways to prosperity for women MSMEs around the world.

As we look to the future, we must continue to invest in digital infrastructure, education, and support systems to ensure that all women can harness the full potential of e-commerce and realise their entrepreneurial dreams.

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# OPEN BANKING SYSTEMS FOR ENHANCING FINANCIAL ACCESS FOR MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES: THE CASE OF INDIA

## **Asian Development Bank**

- Radhicka Kapoor | Professor, ICRIER
- Tanu M. Goyal | Senior Fellow, ICRIER

In this policy brief, we highlight how data exchange DPIs can bring efficiency and reduce costs by seamlessly sharing financial information to address the credit gap faced by MSMEs. Data exchange DPIs such as India's AA network are a step toward open banking, a banking practice that connects financial information users with financial information providers by providing access to the financial data of customers through an API. They act as consent managers for these customers. Several other G20 countries such as the United Kingdom have also undertaken open banking initiatives. Significantly, Brazil, which holds the current G20 presidency, also launched an open finance system in 2021, which is similar to India's consent-based data-sharing system. Open banking is an important system, especially for MSMEs, as it replaces physical collateral with information collateral.

Through data democratization and digital investments, open banking systems can have significant and far-reaching impacts on the ability of MSMEs to access credit and financial products and services from a variety of providers. This increased competition can result in lower fees, better interest rates, and more customized financial solutions for SMEs.

Against this backdrop, the G20 under the Brazilian presidency should seek to encourage and foster knowledge sharing on open banking systems, including their design, development, and operations, as well as their impact on improving access to finance for MSMEs. This will help motivate and accelerate the adoption of such systems globally, particularly in developing economies to help address the financial information gap faced by MSMEs. The following recommendations may be discussed under the Brazilian presidency.

**Standardizing templates for facilitating cross-border financial access.** There is a need for standardized templates for data sharing, especially for easier crossborder financial access. In the long run, the ambition of open finance systems should be to enhance cross-border financial access. The G20 countries could also examine how open banking systems can be developed globally to ease cross-border financial access, especially for trade finance. Open banking is based on interoperability and networking between banking information and service providers, creating a smooth user experience while networking users' accounts. APIs are a critical part of open finance. To enable the secure exchange of information between different parties across countries, the G20 could consider establishing a certain level of standardization for data sharing and possibly agreements on the technical models that enable data to be shared.

**Expanding financial information sources by integrating e-commerce transactions data.** To make open finance beneficial for MSMEs, there is a need to expand and enhance the scope of data sources. The success of open finance will lie in the comprehensiveness of the network and its ability to expand and enhance data sources on MSMEs. Globally, as MSMEs expand their digital footprint through e-commerce platforms, the G20 countries need to deliberate how information compiled through the platforms (public and private) on their transactions, sales, revenues, and other such variables can be leveraged in a secure manner through data exchange APIs. For instance, a recent MSME survey of firms selling through e-commerce platforms in India found that firms were able to access loans from fintech companies without collateral by linking their earnings on e-commerce platforms as guarantees for a loan. This also highlights a shift from loans based on physical collateral to information collateral. By aggregating cash flow and transactions data on MSMEs, e-commerce platforms have the potential to become critical digital financial service intermediaries. This enables creditors to gain insights into the cash flow and risk profiles of MSMEs, based on which financial products and pricing can be customized. Therefore, it is important to examine how large e-commerce platforms can be integrated into the open banking network, especially by tying up with the consent managers. Private companies such as e-commerce platforms can be backed by self-regulatory organizations or network-level entities.

**Developing underwriting rules based on the quality of data.** As the scope of sources expands, it is important to determine underwriting rules taking into account the quality of data. When information collateral replaces physical collateral to obtain a loan, the credibility of information becomes an important factor in determining the success of the system. An important aspect of this process is the weight given to the information from different platforms. Financial information users can decide underwriting rules of loan contracts to MSMEs, including interest rates and payment terms, depending on the information received. Therefore, the G20 also needs to deliberate on what such a weighting strategy could be, particularly when information flows take place across a variety of sources in different countries.

**Enhancing digital and financial literacy and education.** Finally, for open banking systems to be effective, MSMEs should have sufficient digital and financial literacy. The above discussion highlights that open banking systems can expand the reach of financial services to vulnerable segments, particularly MSMEs. However, the success of such networks lies in widespread and seamless usage. To enable their adoption and use, MSMEs— and individuals—must be adequately empowered by educating them about the use of such systems. An OECD-INFE report (2021) revealed that MSME owners in many countries lack adequate financial literacy. It found that in the G20 countries, only 27% of MSME owners with up to 9 employees and 41% of those with 10–49 employees demonstrated high levels of financial literacy. Due to their lack of financial literacy, MSMEs may have trouble obtaining financing and other financial services. Investors, for instance, may be reluctant to invest in MSMEs that lack a strong grasp of financial management capabilities, which could make it difficult for such enterprises to secure favorable lending conditions. Additionally, such MSMEs may not be aware of available financial products and services such as grants and loan schemes, among others, and may miss out on opportunities to grow their business further. Thus, the G20 must reaffirm its commitment to advancing digital and financial literacy across countries.

*Note: This information is based on point 4, “Policy Recommendations and Conclusion,” of a policy brief by Radhicka Kapoor and Tanu M. Goyal, titled “[Open Banking Systems for Enhancing Financial Access for Micro, Small, and Medium-Sized Enterprises: The Case of India.](#)”*

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