



## Report on SME Finance Compact Workshop

### Background

Small and medium-sized enterprises (SMEs) play a crucial role for employment, job creation, investment, innovation and economic growth around the world. They account for about 90% of businesses and more than 50% of employment worldwide, and are therefore crucial for the recovery of the world's economy. Considering this important role, it is critical to ensure that SMEs around the world have access to the credit they need to expand.

It is estimated that SMEs around the world face an estimated credit gap of \$2.1 to \$2.6 trillion<sup>1</sup>, which is equivalent to 30 to 36% of current outstanding SME credit. From these figures, approximately \$1.3 trillion<sup>2</sup> correspond to G-20 countries – almost 50% of the developing world's credit gap. Moreover, from the 200 to 245 million enterprises that are unserved or underserved<sup>3</sup> around the world, approximately 120 million are established in G-20 countries. On average, more than 90% of these unserved and underserved enterprises are formal micro enterprises or informal SMEs<sup>4</sup>. These magnitudes highlight the importance of addressing the SME's access to finance challenge at the G-20 level.

Against this backdrop, an opportunity arises for both policy makers and the private sector to intervene at various levels to try to encourage better access to finance policies for SMEs. Financial infrastructure is one of the key areas where these policies should focus.

In an effort to promote SME finance policies and approaches that spur economic growth, the G20 GPII announced the SME Finance Compact in 2012. The GPII announced an **SME Finance Compact** in 2012, to promote the development of innovative models and approaches to

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<sup>1</sup> SME Finance Forum ([financegap.smefinanceforum.org](http://financegap.smefinanceforum.org)). The study refers to SMEs in the developing world, and therefore, the credit gap figure does not include SMEs in developed (OECD) countries.

<sup>2</sup> Data available for Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey.

<sup>3</sup> SME Finance Forum. Under the database methodology, "unserved" means SMEs that do not have a loan or overdraft, but are in need of one, and "underserved" means SMEs that do have a loan but still find access to finance as a constraint.

<sup>4</sup> Informal firms are estimated to account for around 74 percent of all MSMEs in the world, and around 77 percent of all MSMEs in developing countries.

address the specific challenges and constraints faced by low income developing countries (LIDCs) with regard to SME finance.

The Financial Inclusion Action Plan was approved by the G20 Leaders in 2014 to advance financial inclusion through 10 areas of action over and sets out the following key actions to increase access to finance for formal and informal micro, small and medium enterprises in emerging and developing economies to stimulate business and entrepreneurial activity for income, job creation and poverty reduction:

1. Accelerate and replicate successful policy reforms that facilitate the expansion of financial services to SMEs
2. Establish the SME Finance Forum as global center for good practice knowledge exchange and promotion
3. Improve financial access through the SME Finance Compact, SME Finance Initiative, and key development achievements

### **SME Finance Compact Objective**

Under the Turkish Presidency, the GPMI through its implementing partners, the World Bank Group in collaboration with the Alliance for Financial Inclusion, organized a one day workshop in Antalya, September 2015.

The workshop's theme was: Realizing access to finance for SMEs at the country level: Implementing the SME Finance Compact in particular in LIDCs.

The event provided an opportunity for G20 and interested non-G20 countries to share knowledge and discuss their national SME finance strategies. The workshop highlighted progress made by countries in line with the SME Finance Compact, invited governments to make new commitments in this regard and provided recommendations to the G20 for scaling up country-level efforts. Among the topics discussed:

### **Challenges facing SMEs in LIDCs:**

- Multiple SME stakeholders at the national level making coordination difficult
- Lack of collective representation of SMEs to voice their constraints, needs, etc.
- Lack of unified definition of SMEs, especially sub-segments
- Poor financial markets' infrastructure e.g. credit reporting, collateral registries and insolvency regimes
- Lack of comprehensive and consistent data on SMEs
- Innovation in finance outpacing regulation
- Lack of bank financing alternatives
- Limited capacity of SMEs and that of Financial Institutions
- Cumbersome procedure for donors and DFIs

- Lack of transparency in credit approval processes and pricing

**Propose Solutions:**

- Country national strategies to include specific focus on SME finance as part of their financial inclusion roadmap
- Promote SME network and association development
- Country definitions with sector and sub sector of SMEs
- Consistent collection of data at country and global level
- Capacity building for regulators, FIs and SMEs
- Promote alternative financing tools eg capital markets, securitizations, asset backed financing
- Leverage technology and digitalization

**Recommendations to the G20:**

- Use G20 to promote effective practices (wider dissemination of best practices)
- Promote development of financial markets infrastructure in G20 and non G20 and alternative financing solutions
- Lobby with Basel to apply proportionality for capital requirements with regard to SME portfolios
- Linking supply and demand support i.e. Global SME Forum and SME Finance Forum
- Promote capacity building through DFI support for regulators, SMEs and FIs.
- Encourage donor coordination at country level

The implementation of the SME Finance Compact is ongoing with the Alliance for Financial Inclusion SME Finance Working Group to support peer learning amongst regulators, identify regulatory and policy challenges, develop data indicators for SME finance and document successful policy approaches, as an important initial step and to support further activities under the SME Finance Initiative and the Financial Inclusion Support Framework (FISF). The FISF of the World Bank Group includes actions to improve SME access to financial services in the design of the 7 initial country programs (Indonesia, Rwanda, Mozambique are launched, and a further 4 are in preparation), which will help accelerate the design and implementation of SME finance initiatives, policy reforms, and regulatory measures.