

United Nations Economic and Social Commission for Asia and the Pacific

MSME Financing Series No. 7

## MSME Access to Finance: The Role of Digital Payments





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## About this series

Micro, small and medium-sized enterprises (MSME) make a significant contribution to economic growth and job creation across Asia and the Pacific. However, they often encounter difficulties in accessing finance. Women-headed MSME's are particularly underserved by financial institutions due to economic, regulatory and socio-cultural factors. In recent decades, governments and related agencies have set up mechanisms to facilitate the flow of finance. The result has been an increase in financial inclusion but the extent to which the financing gap has been reduced is not well known.

To gain more understanding about this issue, key questions need to be addressed, including the following: Is finance still a constraint, including for certain classes of enterprises, such as medium-sized ones? What mechanisms, such as credit guarantees, collateral support, and directed credit, have been the most beneficial in closing the gap? Is there gender disparity in access to finance? And are there public and/or private sector measures to overcome any existing regulatory, normative and contextual barriers to women entrepreneurs' equal access to finance? How have demand-side programmes, such as financial literacy, aided MSMEs? And how have FinTech and digital finance helped to increase access to finance?

To seek answers to these and other important questions, the Economic and Social Commission for Asia and the Pacific (ESCAP) developed *A Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific*. The Framework provided direction for the preparation of detailed national studies on MSMEs' access to finance in selected countries of Asia and the Pacific. The studies were prepared by researchers and specialized consultants under the guidance of a lead country agency with policy responsibilities in MSME financing. In some of the studies, an advisory committee composed of representatives from departments, agencies, financial institutions, and organizations involved in MSME promotion and financing provided direction and support to the authors.

This series presents the Framework along with national studies that were prepared following its guidelines. Each national study is expected to contribute, through policy analyses and recommendations, to policy discussions on how to improve access to finance by MSMEs. The preparation of national studies based on a common framework is also expected to facilitate comparisons across countries to share experiences, identify good practices, and understand common challenges.

Some of the studies contributed to ESCAP capacity building projects. The studies for Cambodia and Nepal were funded by the United Nations Regular Programme of Technical Cooperation, and the studies for Bangladesh and Samoa were funded by the Government of Canada, through Global Affairs Canada, in the context of ESCAP's Catalysing Women's Entrepreneurship Programme. The preparation of these four studies benefitted from a partnership between ESCAP and the United Nations Capital Development Fund (UNCDF). The latter contributed financial support for the Nepal study through UNNATI-Access to Finance (A2F) Project funded by the Government of Denmark.

In addition to the country studies, the series includes two thematic studies on ways in which commercial banks and digital technologies can contribute to improving access to finance by MSMEs. These studies were prepared for the Global Initiative Towards the post-Covid-19 Resurgence of the MSME Sector, a joint United Nations Development Account project implemented by multiple agencies.

## About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and it was prepared by Douglas Arner, Sijuade Animashaun, Kuzi Charamba, and Yixiao Cai.

The report was funded by a joint project implemented by UNCTAD, UNDESA and the UN regional commissions entitled “Global Initiative Towards the post-Covid-19 Resurgence of the MSME Sector.” The project aimed at building capacities of governments, financial institutions, and micro, small and medium-sized enterprises (MSMEs) to facilitate the latter’s recovery from the Covid-19 pandemic. In the context of this project, ESCAP prepared training materials on various areas related to MSME financing.

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## Abbreviations

ADB	Asian Development Bank
AI	Artificial intelligence
AML	Anti-money laundering
APAC	Asia-Pacific
API	Application programming interface
ATM	Automated teller machine
BIS	Bank for International Settlements
CBDC	Central bank digital currency
CDD	Customer due diligence
CFT	Countering the financing of terrorism
DFTF	Digital financing task force
DLT	Distributed ledger technologies
EFTs	Electronic fund transfers
FSB	Financial stability board
GFC	Global financial crisis
GDPR	General data protection regulation
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GPFI	Global Partnership for Financial Inclusion
GPN	Indonesia's Gerbang Pembayaran Nasional
GST	Goods and services tax
GVC	Global value chain
G-SIFI	Globally significant financial institutions
ICT	Information and communications technology
IFC	International financial corporation
IFEC	Investor and financial education council
ILO	International Labour Organization
IoT	Internet of things
ISO	International Organization for Standardization
KYC	Know your customer
MFI	Micro-finance institution
MNO	Mobile network operator
MSME	Micro-, small- and medium-sized enterprise
NBFI	Non-bank financial institution
NDID	National digital identification
OECD	Organisation for Economic Co-operation and Development
P2P	Peer-to-peer
PAPSS	Pan-African Payment and Settlement System
PSP	Payment service provider

RTGS	Real time gross settlement
SDG	Sustainable Development Goals
SIM	Subscriber identification module
SME	Small- and medium-sized enterprise
TFI	Traditional financial institutions
TFI	Trade finance intermediary
UPI	Unified payments interface
USSD	Unstructured supplementary service data

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