

Convergence - the increasing blurring of real and financial sector roles in the financing of SMEs

On the 17th of September 2019, Matt Gamser, CEO of the SME Finance Forum, held a session on **“Convergence – the increasing blurring of real and financial sector roles in the financing of SMEs”** during which he addressed several issues.

He started his speech by talking about the MSME (Micro, Small and Medium Enterprises) Finance Gap, the difference between potential demand and existing supply, which is due to an old approach based on cash-domination, meaning that SMEs do much of their business in cash. In US\$ trillions it amounts to 8.9 (potential demand) – 3.7 (existing supply) = 5.2.

Finance Gap has been disaggregated by the enterprise type (micro, SME) and by the owner’s gender. As far as the gender Finance Gap is concerned, women-owned businesses comprise the 28% of business establishments and account for the 32% of the MSME finance gap. Furthermore, the total MSME finance gap for women is estimated to be valued at \$1.7 trillion, which is over 6% of total GDP. Another major point of inequality is due to the geographical position of the enterprise and regards paper-based P2B (person to business), B2B1 (business to business) and B2P (business to person) payments accepted and made by micro, small and medium retailers: in high-income OECD countries, over \$11.1 trillion the 71% concerns the electronic sector, while in Sub-Saharan Africa over \$1.5 trillion only the 25% concerns the electronic sector.

Nowadays more and more payments are going digital, with a rate that is more than doubling every two years and SMEs are going digital too, mainly in three main areas:

- big data analysis
- mobile micro-lending graduating to SMEs
- SMEs loan aggregator marketplaces.

Thanks to this evolution, it is not necessary anymore to have an updated software to collect data, since everything is happening on the cloud, making SMEs more accessible. Even bankers can now deal with SMEs through digital means, without repetitive processes, but through machine learning and artificial intelligence. Moreover, alternative financiers are coming forward with high growth rates. An example Mr. Gamser referred to is Kabbage, a company born as competitors to banks, and which now is trying to partner with them. Other companies are following this lead. Examples of huge financial products holders include Amazon, Pay Pal, Facebook and Google, but also Uber and Ikea.

Regarding the East, what happens in China is that even very small purchases are concluded not by handing over cash, but through a QR code on the phone. This form of payment has been called ANT Financial and can be implemented through a 3-1-0 strategy, where 3 stands for savings, insurance and payments, 1 stands for the minute the client take to put the money on his phone and 0 stands for the absence of contact needed to conclude the transaction.

Matt Gamser pointed out that another field in which digital revolution is making innovation possible is, for example, rural farming, bringing finance and renewable power supply. Thanks to these technologies, problems can be tracked and solved almost immediately when they arise and from everywhere in the world. Therefore,

the digital revolution is not only about the internet of money, but it is also deeply affecting the Internet of Things (IoT).

Smartphones are one of the key units of this revolution and there exist three models of mobile data-based lending:

- instant small mobile loans
- credit scores based on mobile transactions, mobile e-money usage, mobile e-money linked savings history
- third-party mobile-based lenders are using data from apps running on smartphones.

Unfortunately, cross border situation still has to evolve, since digital cross border trade and payments have not been fully reached; trade finance is still supported by old technologies. Furthermore, there are difficulties connected to the uncertainty on how SMEs asset should be treated: some people think that there is a correlation between the quality of the business plan and the business risk and they also find that having fix assets is better, but Matt Gamser claimed that this is not true, since SMEs rarely have this kind of assets and in this time of IoT revolution there is nothing wrong with movable assets. Moreover, among the problems, the speaker recognized that high capital is still required for SMEs landing and less "formal" firms experience a harsh treatment of finance.

Matt Gamser concluded the session by stating that we live in a very different world than five years ago as far as SMEs' finance is concerned. According to him, we should expect more, there are policies to work on, but we are moving in the good direction.