



Digital technology is essential to better financial services for small businesses

Better financial services are needed by micro, small, and medium-sized enterprises (MSMEs), such as secured transaction frameworks, credit information systems, and insolvency regimes.

Among the 21 Asia-Pacific Economic Cooperation (APEC) forum economies, MSMEs represent more than 60% of total employment, 40% of gross domestic product, and 15% of total exports, but some 40% of their financial needs go unserved, mainly because they are too small to get banks' attention.

MSMEs have difficulty accessing formal credit because they lack hard assets such as building or cash or capital equipment—meaning they have little collateral. Without collateral, they struggle to expand. MSMEs do not have the staff to manage risk, cash flow, or resources. They are often not very good at tasks outside of their core business.

When they do manage to secure bank funds, the lending is local, assessed by a bank branch manager. MSMEs do not have a credit score and their documents are not substantial enough to qualify for a bank's usual credit assessment process. The results are high costs to secure working capital, an opaque assessment process, and a poor user experience for the MSMEs.

These shortcomings may be overcome with digital technology solutions. For example, MasterCard has begun looking more at wholesale than retail markets, providing access to credit by MSMEs.

Developing financial infrastructure should be a priority so MSMEs can achieve economies of scale that will encourage greater efficiency, transparency, innovation, and

convenience—for both them and consumers. Financial infrastructure operators should use the latest digital finance technologies to upgrade services. Private credit risk databases can be developed to improve information on potential MSME borrowers, following the model used in Japan.

This has been from a section of [Financial Inclusion in the Digital Age](#), an ADBI policy brief by Shawn Hunter, ADBI economist David Dole, and ADBI research associate Valdimirdela Cruz.

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