

## **ASEAN Institutional Framework\* on Access to Finance for MSME**

### **I. INTRODUCTION**

Increasing access to financing for Micro, Small and Medium Enterprises (MSME) is a key strategy under the ASEAN Blueprint 2025. The Blueprint calls for an “enhanced(ing) financing ecosystem in the region that benefit MSME”, by improving the policy environment and instituting measures that foster alternative and non-traditional financing; promote financial inclusion and literacy and the ability of MSMEs to be better engaged in the financial system.

2. Aligned with the spirit of the Blueprint, the ASEAN Strategic Action Plan for SME Development 2016-2025 (SAPSMED 2025) has identified enhancing MSME access to finance as one of the five strategic goals. The Plan recognises the need to develop an institutional Framework on access to finance for MSME by improving understanding and strengthening traditional financing infrastructure, improving the policy environment and fostering alternative and non-conventional financing, increasing diversified sources of private financing and financing instruments as well as strengthening export financing facilities.

### **II. OBJECTIVES**

3. The objectives of the Institutional Framework on Access to Finance for MSME are to further:

- (i) Provide definition to the work on Goal B – Increase Access to Finance under the ASEAN SAPSMED 2025;
- (ii) Enable better understanding of the necessary infrastructure and ecosystem in providing supportive policy environment and the measures for the enhancement of MSME access to finance for both traditional and alternative financing;
- (iii) Define the necessary measures to support the roles of governments, financial institutions and the private sector in enhancing access to finance; and
- (iv) Provide inputs for the work of the relevant sectoral bodies including the ASEAN Coordinating Committee on MSME (ACCMSME) and the Working Group on Financial Inclusion (WC-FINC) in addressing issues on access to finance.

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\* The Framework was developed based on the G20/OECD High-level Principles on Financing

### III. ASEAN INSTITUTIONAL FRAMEWORK ON ACCESS TO FINANCE FOR MSME

4. The adoption of the Framework would be voluntary and non-binding to meet ASEAN needs and priorities to support ASEAN Member States AMS efforts to enhance access to a diverse range of financing instruments for access to finance by MSMEs. The Framework builds on existing international financial principles and guidelines, including the G20/OECD High-Level Principles on SME Financing and the SAPSMED 2025. ASEAN's efforts to improve MSME access to finance is expected to benefit from the following principles and best practices. These elements will also provide inputs into the work on financial inclusion and access to finance by the ASEAN sectoral bodies, including the newly formed WC-FINC, represented by authorities responsible for financial regulation and legislation, in the respective AMS.

#### ***Promote Financial Inclusion for MSME and Ease Access to Formal Financial Services***

5. MSMEs are facing a number of challenges and issues with respect to access to finance. Governments may wish to identify the core problems faced and review policies towards promoting inclusive finance by ensuring all segments of the society, including the MSMEs, to have access and usage of quality and affordable financial services. Elevating financial inclusion would reduce income inequality, alleviate poverty and enhance economic growth. National financial inclusion strategies should include efforts to enhance infrastructure readiness in the respective countries and encourage the development of innovative delivery channels/systems that can enhance the convenience and outreach of quality and affordable financial services in a more effective and cost-efficient manner. Tailored microfinancing solutions should also be given adequate focus and attention, particularly in developing countries, as a means to enhance entrepreneurs' access to small amounts of funding at an affordable cost.

6. Governments should assess where gaps exist, by collaborating with relevant stakeholders, including central banks and financial supervisory authorities, financial and research institutions and MSME representatives. This requires a better understanding of MSME financing needs and challenges by public authorities and financial suppliers. ASEAN could move towards improving statistical database and relevant key information on MSME financing, where lack of data constraints policy design, implementation and assessment. This includes standard definitions, comparability of data and indicators within and across countries, and regulatory coordination. A first step would be to define the coverage of data and specify a set of comparable indicators on Financing MSME and Entrepreneurs in a future ASEAN Scoreboard.

#### ***Comprehensive Financing Ecosystem is Key to Ensure Greater Access to Financing for the MSMEs***

7. The provision of financial services to all segments of the society, including the MSMEs to ensure access, usage and quality financial services should also be supported by a comprehensive financing ecosystem which comprises an enabling financial infrastructure, financing and guarantee schemes and avenues to seek information and redress, debt resolution and management arrangements and outreach and awareness programmes. These arrangements have been important to promote confidence in using financial services, in addition to supporting individuals and businesses to understand how the financial system can help them manage risks and improve their financial well-being.

***Strengthen MSME Access to Traditional Debt-based Bank Financing***

8. As the main source of external finance for most small businesses, supporting bank lending is the first port of call. Measures may include providing credit guarantees, with minimum requirements, enabling the securitisation of MSME loans and other risk diversification instruments, and ensuring sufficient macroprudential standards to cover for potential loan losses. Risk mitigation measures should be strengthened and mechanisms for underwriting risks should be improved. In addition, other strategies that could be undertaken include the strengthening of credit guarantee mechanisms and promoting the use of innovative channels and new technologies. Effective and predictable insolvency regimes should ensure creditor rights while supporting healthy companies and offering a second chance for honest entrepreneurs. Likewise, MSME should be provided credit based on affordable and yet reasonable terms and with appropriate consumer protection measures in place.

9. MSME should be able to resort to assets beyond fixed collateral, such as movable assets, to secure loans. The feasibility of expanding the use of intangibles as collateral should be carefully considered, to ease access to lending particularly by knowledge-based companies, while taking into account potential risks. Alternative and innovative approaches to credit screening should also be explored and a model credit rating methodology should be developed at the national level to assist banks and financial institutions to better adopt new screening methods. The use of credit information, through effective credit information bureaus, should also be enabled to improve risk management for lenders and access for borrowers.

***Enhance MSME Access to Diverse Non-Traditional Financing Instruments and Channels***

10. Recognising the complementary nature of the role of non-banks and other financing channels, access to a sufficiently broad range of MSME financing instruments is desirable to obtain the form and volume of financing best suited to MSME specific needs and the stage of the firm life-cycle. Multiple and competing sources of finance for MSME should be supported, and efforts should be made to increase entrepreneurs' awareness of the available financing options through targeted outreach initiatives. Non-banks and other financing channels should also ensure that MSME would obtain credit loans with the lowest interest rate. The development of alternative financial instruments for MSME should also aim to attract a wider range of investors, including institutional investors, and to enhance their understanding of MSME markets.

11. Asset-based finance could be fostered to enable young and small firms to access working capital on rapid and flexible terms, as well as supply chain and trade finance to support their integration in global value chains. Alternative forms of debt could be cultivated to enable MSME to invest, expand and restructure. Adequate policy attention should go to the development of the necessary tools and equity instruments to strengthen MSME's capital structure and boost investment in innovative start-ups and high-growth MSME. SAPSMED 2025 also calls for exploration on crowd financing. Due consideration should be given to venture and private equity financing, including capital for seed, early and later stage investments, as well as to trade finance instruments.

***Ensure the Design of Regulations that Supports a Range of Financing Instruments for MSME, while Ensuring Financial Stability and Investor Protection***

12. Policy makers and regulatory authorities should ensure that regulation is designed and implemented that facilitates MSMEs' access to a broad range of financing instruments without compromising financial stability and investor protection, and enables a return on investment. Regulatory certainty is needed to ensure a predictable and stable operating environment for firms and investors. Regulations should be proportionate to the risks of different financing instruments. Efforts should be made to avoid undue administrative burdens (including through digitalisation), ensure clear disclosure and transparency and facilitate bankruptcy resolutions. Flexibility provided to MSMEs should be compatible with investor protection, integrity of market participants, corporate governance and transparency. Good corporate governance in MSME should be encouraged, to enhance their access to equity markets. Legal, tax and regulatory frameworks (including tax policies which provide incentives to encourage both debt and equity financing) should contribute to foster diverse sources of finance. International regulatory coordination can serve to promote cross-border financing for MSME.

13. Leveraging on private resources and competencies is essential to enhance the resilience of MSME financing in the face of rapid economic and regulatory change. Policies should aim at encouraging the participation of private investors and developing appropriate risk-sharing and mitigating mechanisms to ensure proper functioning of public measures, and more effective allocation of government resources .

#### ***Improve Transparency in Financial Markets***

14. Information asymmetries in financial markets should be minimised to increase market transparency, encourage greater investor participation and reduce financing costs for MSME. Information infrastructures for credit risk assessment should aim to support an accurate evaluation of the risk in MSME financing. The credit risk and credit rate information should be made publicly available and accessible to relevant market participants and policy makers to foster both debt and non-debt MSME financing instruments. Accessibility of this information at the international level should be supported to foster MSME's cross-border activities and participation in global value chains.

15. Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework, and should reflect the diversity of national circumstances and global market and regulatory developments within the financial sector. Strong and effective legal and judicial or supervisory mechanisms should exist to protect consumers from and sanction against financial frauds, abuses and errors.

#### ***Design Public Programmes for MSME Finance which Value Add and Ensure Cost Effectiveness and User-friendliness***

16. The design of public programmes to enhance MSME access to finance should value add to financial and economic growth along with cost effectiveness. Formulation of policies and regulations across the various levels of government and between government and non-government bodies dealing with MSME finance should be pursued to ensure greater accountability in advancing the financial inclusion. The target population, eligibility criteria, credit risk management and fees structure should be considered carefully and defined clearly when designing programmes, for easy reference by the MSME. The administrative burden and compliance costs of new and existing policies, should be proportionate to the service provided,

the impact on beneficiary firms and the broader economy, as well as to the nature and size of the targeted businesses.

### ***Monitor and Evaluate Public Programmes to Enhance MSME Finance***

17. Continuous monitoring and evaluation of policies to ease MSME's access to finance should be promoted to enhance MSME access to financing. Ex ante and ex post evaluation should be performed regularly based on clearly defined, rigorous and measurable policy objectives and impacts and in close co-operation with financial institutions, MSME representatives and other stakeholders. Evaluation findings should be incorporated into the policy making process, in particular when measures fail to meet their stated objectives or are found to have undesirable impacts on the policies. Policy dialogues and exchange of experiences at the regional, national and international levels on how to monitor and evaluate public programmes to enhance MSME finance should be encouraged accordingly.

18. Roundtable discussions between SMEs, regulatory agencies and financing institutions should be conducted amongst the MSMEs, regulatory agencies, and financing institutions to share current issues on access to finance, such as credit rating, credit scoring, credit bureau, secured transaction law, microfinance, SMEs focused lending, and intercompany credits (including Small Debt Resolution Scheme).

### ***Enhance MSME Financial Skills and Strategic Vision***

19. Public policies should champion MSME's financial literacy, awareness and understanding of the broad range of available financial instruments and changes in legislation and programmes for MSMEs to enable them to develop a long-term strategic approach to finance and improve business prospects. MSMEs should be encouraged, including through appropriate seminars and technical workshops, to acquire skills for accounting, financial, and risk planning, and to respond to disclosure requirements. Efforts should also aim to improve the quality of start-ups' business plans and MSME investment projects, especially for the riskier segment of the market. Programmes should be tailored to the needs and financial literacy levels of different constituencies and target groups, including groups that are underserved by financial markets, such as women, young entrepreneurs, minorities, and entrepreneurs in the informal sector, and to different stages in the SME business cycle.

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