

Rethinking MSME Finance in Asia and the Pacific: A Post-Crisis Policy Agenda





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Foreword

The COVID-19 pandemic has wrought devastation worldwide, including in Asia and the Pacific. The cost has been considerable, whether measured in terms of public health or economic fallout. In a bid to constrain the spread of the coronavirus, national and local governments were obliged to lock down public spaces, forbade business transactions in person, restricted travel, and otherwise interdicted the flow of people, goods, and services globally. The consequences for business have been acute.

While all businesses suffered in varying degrees from these measures, the most vulnerable were the micro, small, and medium-sized enterprises (MSMEs). Given their limited human and financial resources, and heavier reliance on cash flows, MSMEs were generally less well equipped to cope with the dramatic loss of business than larger firms. Access to finance, already a major constraint to MSME development prior to the pandemic, has worsened considerably, even in cases where governments have had sufficient resources to enact emergency policies aimed at keeping their MSME sectors afloat.

Each country in the Asia-Pacific region developed their own strategic policy approach to the COVID-19 crisis, including their policies towards MSMEs, so truly each nation has had a unique experience. Despite this, there have been certain commonalities among MSMEs in the region during the crisis, including (but not necessarily limited to):

- Dramatically curtailed cash flows, revenues, and profits.
- A reduction in employee numbers, both part-time and full-time.
- A movement of transactions from physical locales, such as shops, to online forms of transacting business.
- Constrictions and dislocations in foreign trade.

Indeed, at the time of writing, the economic ramifications of the pandemic, and the virus' impact on communities, continues to be felt. While it is too early to say that COVID-19 is behind us, it is not too early to start envisaging what a post-pandemic business environment might look like. The post-pandemic recovery period presents us with a unique opportunity, should we seek to seize it.

As this volume suggests, there is the potential to ‘build back better’; to better align MSME financing towards larger trends and issues that were percolating in the region (and the world) before the pandemic. Although those trends and issues mostly pre-date the pandemic, they were accelerated and/or given greater emphasis by the COVID-19 experience.

In this volume, we identify a number of important areas that policymaking for MSME finance needs to address. They include (but are again not limited to):

- a. **Digitalization and the rise of fintech:** Traditional means of funding from banks and non-bank financial institutions are being challenged by an influx of new, technology-driven business models that are revolutionizing the way MSMEs can better meet their financing needs. Indeed, it is difficult to over-emphasize the extent to which this digital revolution could utterly transform the way that MSMEs transact their business, including how they fund their operations. As such, the field of MSME finance seems destined for a major transformation that will challenge both finance providers and regulators in equal measure.
- b. **Inclusion and the need for greater sustainability:** The pandemic and its aftermath have called into question the optimal means of not only financing MSMEs, but also how such financing can be directed towards meeting the kinds of objectives laid out in the Sustainable Development Goals (SDGs). The unsustainable pursuit of business growth that comes at a deleterious cost to gender equity, social cohesion, the environment, and the existential threat posed by climate change is no longer viable or acceptable.
- c. **Resilience and a need for more robustness:** The COVID-19 pandemic has served as a global stress-test for MSMEs, and pinpointed where weaknesses in the increasingly elaborate network of value chains exist. The recent pursuit of efficiency gains and other means of competitiveness have now been tempered with a realization that value chains and production networks need to be able to withstand ‘black swan’ and ‘white swan’ events, and other exogenous shocks.

Understanding and responding effectively to the above trends necessitates a change in the strategic approach of those sovereign government agencies and members of the international development community (including ESCAP), that work to support MSMEs in Asia and the Pacific. It is not just about remaining relevant, but also being of genuine utility to an MSME community that is coming out of a global pandemic in varying degrees of damage and disarray. The potential gains to be derived from the latest advances in finance need to be leveraged, and made real. But care also needs to be taken to ensure that the inevitable risks entailed in any exploration of new innovations are kept within acceptable bounds.

With one eye on the promise of the future, and one eye on the common good, MSME finance in Asia and the Pacific appears poised to begin a new chapter. In this context, it is hoped that this publication can contribute to policy deliberations on MSME financing in the Asia-Pacific region, in the post-COVID era. It can also hopefully serve as a source of useful information and insights for other interested stakeholders, such as entrepreneurs, financial institutions, and researchers.



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