

## 4 CONCLUSION

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The key issue for MSME financing is risk assessment, and more specifically, how to better assess the risk potential of companies that lack a long credit history. Technological tools and data-driven solutions enable firms to approach this process from a new angle. They make it possible to harness a bigger pool of data to provide greater visibility into firms' operations and creditworthiness. Rather than a backward-looking approach to risk assessment, as in the past, data can now allow financiers to make risk assessments a real-time process.

Financial institutions can also do more to understand the risks associated with each type of transaction and to examine them from a different point of view through the use of alternative data sets to develop more granular credit scoring and risk assessment models. Technology offers clear promises, and considerable amounts of work are already being done.

Yet the trade finance gap has not been reduced. It is clear that the technology itself is not enough. A multi-pronged approach is needed to unleash the potential of digital technologies in order to facilitate MSME financing.

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*"The rationale should be to drive the change through a complete digital approach giving access to identity check, business checks, data track records and access to connected financial services (payment, transaction-based financing and insurance cover). This means to construct a transversal view across many silos that are currently organized manually in a physical economy."*

*-[\*27 Fintech]*

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First, developing globally accepted standards to remedy the digital island problem will be key to empowering the digitalization of trade and trade finance and to allowing small businesses to benefit from it. It is crucial for key decision-makers to bear in mind that interoperability is not just a challenge between different technical platforms. Cross-industry interoperability enabling seamless exchanges of data based on standard data models is equally critical, and must always be maintained as a guiding goal. Rather than each trade silo - such as finance, logistics and insurance - creating its own standard, the trade process as a whole must be considered.

Second, a coordinated move away from individual perspectives on how to leverage what type of data should be initiated to allow banks and alternative financiers to better assess MSME risk potential and to lend more to these firms, within a common understanding and the respect of data privacy rules. Thought should be given to creating a common framework about how to leverage data at all stages of the trade technology stack to better assess financing risks and distinguish the good risks from the bad.

Third, creating an enabling regulatory framework that recognizes e-signatures and e-documents and is in line with the UNCITRAL MLETR is critical. Technology cannot thrive in a regulatory vacuum. More movement needs to be seen on that front, both at the national and international levels.

Fourth, identity is critical. There is a strong need for a trusted global digital identity system for companies. Work is well underway in this regard with the establishment of global identifiers and the development of standards such as the DID developed by the W3C, but adoption still remains limited. Ensuring interoperability and mutual recognition between the different approaches being used is needed to avoid nullifying the benefits that digital identities can bring and to facilitate MSME financing.

Fifth, accelerating digitalization to support MSME financing requires an acceleration of efforts to bridge the digital divide to allow all MSMEs, wherever they are, to benefit from the opportunities that digital technologies can offer. Investing in information and communications technology infrastructure, education and skills, among others, are essential in this respect. In addition, for MSMEs to take advantage of the new technologies being developed, there is a need to raise awareness about the opportunities and solutions offered.

Working independently, however, no stakeholder has the clout needed to successfully bring down the paper regime that has held power for centuries. Digitalizing trade requires coordinated action. Industry, governments, financial regulators and international organizations all have a key role to play in this regard. Policymakers, technologists, practitioners, bankers, and all other stakeholders must work together to devise, agree and then execute a roadmap that will catalyse action and lay the foundation for the digitalization of trade and for the digital technologies discussed in this publication to have a potentially transformative impact on MSME financing.

At the end of the day, introducing the industry of trade financing to its prospective paperless future self, will have generous implications for many spheres, including MSME financing. While the challenges that MSMEs face in acquiring funds will not end with this change alone, there is little doubt that they will be reduced. Reduced barriers to MSME financing helped the Apple Computers of 1976 to grow into the remarkable monolith that it is today. Let's empower all visionary leaders of small firms to turn their dreams into reality, and maybe one day to change the world.



# APPENDIX A: METHODOLOGY

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To investigate the state of the industry, the authors conducted a quantitative survey to practitioners from banks, fintech companies, multilateral development banks, industry associations, trade governance bodies, consultancies and trade policy experts. In total, 105 responses were received.

Respondents were asked to provide a score of between 1 and 10 for what they believe the impact of each technology will be on the industry and how difficult it will be to implement that technology in the industry. In addition, demographic questions were asked in order to determine whether there were variations in the perceptions held by each of the groups. These questions included the type of organization (bank, fintech companies, etc.), geographic presence, and whether the groups actively use any of the technologies in question to facilitate MSME financing.

The quantitative survey was supplemented by a series of qualitative interviews. In total, 34 interviews were conducted. Of these, 10 were from banks, 16 were from institutions classified as fintech companies, and 8 were from sector experts and consultants. The banks surveyed comprised multinational operations with a global reach. The authors acknowledge that large global banks are less likely to serve the MSME market, as discussed in Section 2.1.2. However, these are currently the firms most invested in exploring the world of digital technologies. This makes them poised, at the present moment, to understand the potential of the different technologies, the pain points they can address, and the challenges they face. The intention is to encourage further digitalization at all levels by profiling this particular subsector.

Each expert was first asked the question: “What do you see as the key challenges when it comes to MSME access to finance?” Subsequently, for each of the eight technologies highlighted in this publication, interviewees were asked to identify those with which their business is currently working, the pain points each technology helps to solve, the challenges they encounter while using them, and what needs to be done to enable these technologies within trade and supply chains.