GLOBAL SME FINANCE FORUM 2024

REPORT AUTHOR

Darian Bird

Principal Advisor, Ecosystm

REPORT EDITOR

Raadhika Sihin

Head of Public Policy, GFTN

February 2025

Foreword

Mohamed Gouled, Vice President of Industries at the International Finance Corporation, during his speech at the Global SME Finance Forum on September 18, 2024:

“Digitalisation has transformed how we do business, from government services to personal finance. AI is playing a pivotal role in this transformation, enabling personalised financial products, dynamic risk assessment, and improved efficiency. So, the theme for this year’s Global SME Finance Forum, “AI Empowered Digital and Sustainable SME Finance”, is highly relevant in today's evolving landscape.

We're witnessing a surge in digital and challenger banks, many focusing on SME finance. These new players offer innovative solutions tailored to SMEs' needs, expanding access to credit and improving the overall user experience. Fintechs and non-banking financial institutions are also making significant contributions. In India, they account for 20% of SME financing, bridging the gap for underserved businesses. Fintechs introduce new instruments like invoice financing and digital factoring, making financing more accessible and affordable for SMEs.

The rise of digital public infrastructure, exemplified by Brazil's PIX, is another key driver of SME finance. Such innovations are creating new opportunities for SMEs to access capital and grow their businesses.

To fully unlock the potential of data-driven lending for SMEs, we need strong collaboration between governments, regulators, financial institutions, and tech providers. Let's work together to ensure that SMEs have the access to finance they need to thrive.”

Mohamed Gouled
Vice President of Industries
International Finance Corporation

TABLE OF CONTENT

I. EXECUTIVE SUMMARY

The Global SME Finance Forum, a cornerstone of the G20's Global Partnership for Financial Inclusion (GPFI), convened in 2024 to address the critical challenges facing small and medium-sized enterprises (SMEs). This international platform, uniting over 300 banks, financial institutions, fintechs, and development banks, is dedicated to driving SME growth, fostering financial inclusion, and supporting sustainable economic development.

The 2024 edition held in partnership with the Brazilian G20 Presidency, the Brazilian Ministry of Entrepreneurship, Microenterprise and Small Business (MEMP), and with the support of Brazil Development Bank (BNDES) and the Inter-American Development Bank (IDB), brought together a distinguished group of participants. Renowned speakers from the Monetary Authority of Singapore, the SME Finance Forum, Mastercard, IFC, DFC, and other leading institutions shared their insights and expertise on key themes such as AgriFinance and AgTech, Digital and Embedded Finance, Supply Chain Finance, Sustainable Finance, Women's Entrepreneurship, and Risk Mitigation and Credit Guarantee Schemes. These discussions underscored the Forum's commitment to addressing the diverse challenges SMEs face and promoting inclusive growth.

Aligned with the GPFI's objectives, the Forum explored innovative solutions to enhance SME access to finance, particularly in underserved markets. Participants discussed the transformative potential of fintech advancements, AI-driven solutions, and alternative data in empowering SMEs. By leveraging digital infrastructure and innovation, the Forum emphasised the importance of creating an enabling environment for sustainable SME growth.

Looking ahead, the Forum highlighted the transformative potential of AI, sustainability, and cutting-edge innovations in shaping the future of SME finance. By embracing digital technologies, improving data management practices, and committing to sustainability, SMEs and financial institutions can position themselves for continued growth and success. The Forum's efforts to foster collaboration, knowledge sharing, and policy advocacy will be instrumental in driving sustainable, inclusive economic development globally.

II. FORUM HIGHLIGHTS

A Journey to the Heart of Brazil

Brazil's journey in SME finance has transformed remarkably through digital innovation and sustainable development. The BNDES has been crucial in creating an inclusive financial ecosystem. Over the past 18 months, re-established public policies aimed at stimulating investment and fighting poverty have led to better economic growth and reduced unemployment. BNDES has built a credit portfolio for SMEs exceeding USD 25 billion, serving over 443,000 clients.

Democratising access to credit for SMEs is vital, as these enterprises represent approximately 60% of formal job offerings. BNDES, partnering with over 80 financial institutions, has developed a digital service model to effectively reach small businesses. This includes a digital platform for micro and small enterprises to register credit needs and streamline financing.

"Despite technological advancements and increased agricultural productivity, over 10% of the world's population lives below the poverty line. Democratising access to credit, particularly for small businesses, is a powerful tool to reduce poverty and social inequalities."

MARIA FERNANDA COELHO
Director, BNDES

Addressing regional inequalities, especially in the Amazon and Northeast, remains a priority. BNDES is forging partnerships with global financial institutions and raising funds to support small enterprises. Through these efforts, Brazil is enhancing access to finance for SMEs, paving the way for a more sustainable and equitable economic landscape.

Expanding Access to SME Finance: IFC's New Initiative

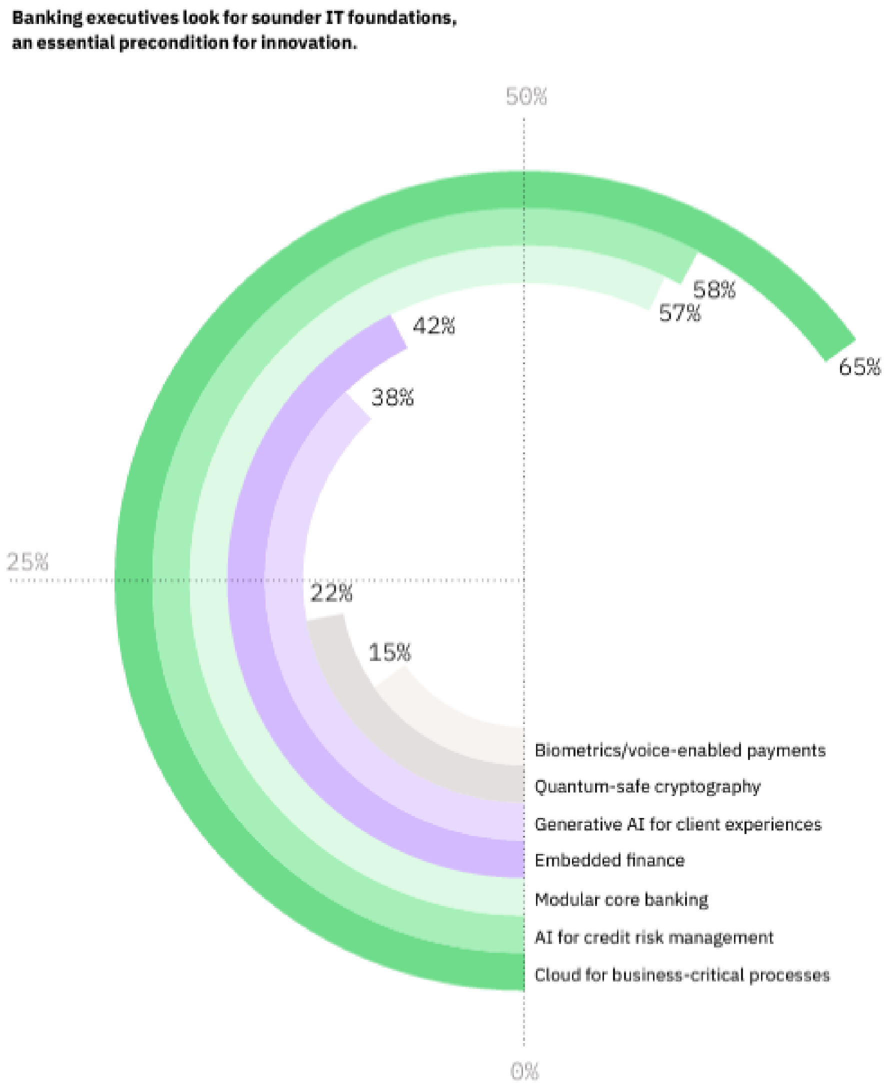
The International Finance Corporation (IFC) has launched a groundbreaking initiative to boost financial access for SMEs in emerging markets. The MSME Finance Platform provides financial service providers with the tools and resources needed to deliver funds to SMEs, especially those owned by women and focused on agriculture and climate. This innovative platform includes a USD 4 billion financing package from IFC to banks, non-bank financial institutions, and digital lenders serving MSMEs. By offering credit enhancements like a Catalytic First Loss Guarantee, the platform aims to attract an additional USD 4 billion in private capital, expanding lending opportunities for SMEs and driving sustainable economic growth.

The Future of SME Finance: A Tech-Driven Approach

A recent research paper by the IBM Institute for Business Value, the SME Finance Forum, and the Banking Industry Architecture Network sheds light on the challenges facing SMEs in accessing adequate financial support. The study reveals that the global banking industry's preoccupation with risk mitigation, regulatory obligations, and cost containment may be hindering SMEs' growth potential. While SMEs seek tailored financial solutions and support, banks often prioritise compliance, fraud monitoring, and cost efficiency, leading to a disconnect between their needs and the services offered. The study suggests that banks can better serve SMEs by leveraging technologies such as automation and Generative AI to meet their specific requirements and improve their overall service offerings.

65% of banking executives revealed that the transition to cloud for business-critical processes was a priority, while 58% said AI was instrumental in improving credit risk analysis. Additionally, 57% supported making core banking architecture more modular and flexible. Initiatives like embedded finance and Generative AI were also named transformative by more than 35% of respondents.

However, many banks have yet to fully adopt the potential of hybrid cloud, data, and AI. The shift from integrating AI into business functions (+AI) to making it the foundation for all operations (AI+) is still underutilised. Building sound IT foundations is important to unlocking innovation and improving banking strategies to better support SMEs as a global economic force.



Source: IBM

Empowering SMEs through Financial Inclusion: The SME Finance Action Plan

This year's conference highlighted the development of an SME Finance Action Plan to promote innovative approaches to SME financing, with an emphasis on digital finance and financial inclusion. The G20, under the leadership of countries like Brazil, is pushing for policies that improve access to finance by leveraging technology, enhancing credit infrastructure, and promoting responsible financial systems. The Action Plan is designed to address market failures by recommending concrete actions. It includes eight elements to provide horizontal policy support and strengthen the enabling environment:

Source: GFTN

III. COMPREHENSIVE LOOK AT SME FINANCE: KEY THEMES FOR 2024

Breaking Down Barriers: Digital Solutions for SME Financing

The rise of fintech and digital financial solutions is revolutionising access to credit for SMEs, effectively breaking down long-standing barriers. By formalising transactions, reducing data discrepancies, and engaging SMEs through their preferred communication channels, digital service providers are significantly narrowing the finance gap.

Traditional banks are responding to this digital transformation by developing their own platforms and collaborating with agile fintech companies. This partnership approach enables banks to offer more responsive and tailored financing solutions specifically designed for SMEs.

Embedded finance is another transformative trend, allowing SMEs to bypass the often-complex procedures of conventional lenders. By securing credit through non-financial platforms such as e-commerce, supply chain, and logistics services, SMEs can cultivate more meaningful financial relationships and enhance their overall financial health.

Supply Chain Finance: Deep Tiers and Sustainable, Digitally Enabled Solutions

For many SMEs, their supply chain partners are often more crucial to their financial health than traditional banks. Timely invoice payments from buyers and credit extensions from suppliers are vital sources of liquidity that can drive growth. As countries establish accounts receivable registries, they can formalise the collateral that SMEs urgently need, enabling lenders to assess risk more accurately and lower the cost of credit.

By providing deep-tier financing and encouraging SMEs to digitise their accounts, anchor suppliers can gain visibility into the final stages of the supply chain, ultimately optimising their operations.

Sustainable Finance Solutions for SMEs

Many SMEs struggle to implement sustainable initiatives due to a lack of access to affordable credit, even when such initiatives could yield long-term savings. Sustainable financing is essential for enabling SMEs to participate in the energy transition and adopt eco-friendly practices. Instruments like green bonds, ESG-linked loans, and SCF will play a critical role in driving this change.

By aligning financial incentives with ESG goals, financial institutions can not only support sustainability but also foster long-term resilience in the face of the escalating climate crisis. Additionally, non-financial support – such as assistance in developing carbon accounting processes and emissions reduction roadmaps – serves as an important lever for promoting long-term behavioural change.

Women's Entrepreneurship Finance: Gender-Disaggregated Data and Tailored Products

In many emerging economies and underserved regions, women play a significant role in micro and small enterprises, yet they often face challenges in accessing financing. Algorithmic bias in lending practices can restrict opportunities for women-led businesses, even when they demonstrate strong financial health.

Collecting and analysing gender-disaggregated data is essential for enhancing credit scoring and creating tailored financial products. Additionally, non-financial services are crucial in helping women entrepreneurs build business acumen, develop financial skills, access networks, and scale their ventures.

Risk Mitigation: Climate Risk, Insurance, Risk Sharing, and Credit Guarantee Schemes

Financial institutions can mitigate the risks associated with lending to SMEs by using a diverse range of data sources and developing AI-powered credit scoring models. By collaborating with fintech companies, supply chain partners, and payment providers, they can gain deeper insights into the financial health of businesses.

As lenders refine their risk models, incorporating non-financial data, including ESG factors, will become increasingly important. Credit guarantee schemes are evolving to not only provide a safety net for lenders but also to connect directly with SMEs through digital channels. By sharing data with other state agencies, these schemes can facilitate the rapid approval of loans that specifically address climate risks.

AgriFinance: The Role of AgTech and Climate-Smart Solutions

AgriFinance is crucial for supporting SMEs in agriculture, providing seasonal financing for farmers who may not earn income until harvest. Effective collaboration across the supply chain – among financial institutions, agri-input providers, and distributors – requires integration and data sharing between partners.

AgTech innovations, such as real-time environmental data, precision agriculture, and climate risk analysis, can help maximise efficiency and reduce lending risks. As many agricultural SMEs face the disproportionate effects of the climate crisis, technology that enables them to adapt to rapidly changing conditions is essential. Additionally, financial institutions can incentivise eco-friendly farming practices that contribute to sustainability and enhance food security.

IV. 2024 SPOTLIGHT

AI TRANSFORMING SME FINANCE

The AI era has arrived, transforming industries by enabling machines to perform tasks once exclusive to humans. From computer vision to natural language processing (NLP), AI is reshaping how we interact with technology. Large language models (LLMs) like those from OpenAI, Anthropic, Databricks, and Anduril are leading the charge, attracting billions in investment since 2020. As AI's potential becomes clearer, regulators are developing frameworks for its responsible use.

The democratisation of AI through cloud-based models allows companies of all sizes to access cutting-edge technologies, boosting productivity and innovation. Banks can now personalise app experiences and offer tailored financial products. LLMs enhance self-service options, enabling SMEs to access fully digital, AI-infused accounts. AI-enabled fraud detection has become essential in defending against sophisticated cyberattacks.

The Great Debate: AI for Financial Inclusion or Exclusion?

A thought-provoking debate unfolded, pitting two sides against each other to argue whether AI would serve as a catalyst for financial inclusion or exclusion for SMEs. While participants presented opposing viewpoints, the discussion remained constructive and informative, highlighting the complexities and nuances of AI adoption in the financial services industry.

The proposition outlined the potential benefits of AI for SMEs, arguing that the risks could be mitigated through careful application:

- **Data Enrichment.** Leveraging diverse data sources to improve SME access to financing.
- **Explainability.** Enhancing transparency in financial decision-making through explainable AI.
- **Data Protection.** Implementing robust data protection measures to prevent privacy breaches in AI datasets.
- **Fairness Through Unawareness.** Removing biased parameters from AI models and conducting rigorous testing to mitigate bias.
- **Improved Risk Management.** Enabling lenders to develop more comprehensive credit scoring models, leading to lower interest rates for SMEs.
- **Self-Service.** Accelerating access to financing for less risky borrowers through self-service options.

However, the opposition raised valid concerns about the unfettered use of AI in financial decision-making:

- **Invisibility.** The risk of excluding SMEs with limited digital footprints.
- **Bias.** The potential for AI models to perpetuate or reinforce existing biases in historical datasets.
- **Transparency.** The challenge of interpreting opaque decision-making processes in complex AI models.
- **Regulatory Lag.** The difficulty of regulators keeping pace with rapid AI advancements and ensuring privacy and security.
- **Skills Gap.** The over-reliance on a small group of AI experts who may not be equipped with the necessary responsibility.

- **Cybercrime.** The threat of malicious actors poisoning data used by AI models.

The debate highlighted the complex interplay between the potential benefits and risks of AI in the financial services industry, emphasising the need for a balanced approach that prioritises responsible and inclusive AI adoption.

> "Many AI models are black boxes. If a bank declines financing to an SME, it must come with an explanation otherwise they cannot improve. AI used in credit scoring needs to be transparent."
>
> **RAJEEV CHALISGAONKAR**
> Head of Business Banking and NeoBiz, Mashreq Bank

AI and Alternative Data: Balancing Efficiency and Risk in SME Financing

SMEs have historically struggled to access financing due to limited credit history and collateral, often viewed as higher-risk borrowers. AI algorithms have transformed credit scoring by analysing vast amounts of structured and unstructured data, allowing financial institutions to create more sophisticated models. By incorporating previously overlooked data sources, banks can gain a clearer picture of an organisation's financial health.

Traditionally, banks favoured tangible collateral, such as real estate and machinery, to assess creditworthiness. However, initiatives in countries like Brazil have introduced accounts receivable platforms, enabling SMEs to register and exchange these liquid assets. This demonstrates future cash flows to lenders and gives banks a way to dispose of receivables in case of default.

Newly established SMEs often find it difficult to secure financing due to their lack of credit history. Lenders typically rely on data sources that SMEs may lack, such as loan payment history, credit card accounts, and tax returns. AI-driven credit scoring addresses this issue by using dozens or even hundreds of alternative data sources – like utility accounts, rental payment history, and social media activity – to provide a more comprehensive assessment of borrowers.

Access to new data sources significantly enhances the accuracy of credit scoring models for both SMEs and lenders. By developing these sophisticated models, banks can better understand risk, reducing non-payment likelihood and potentially lowering the high cost of credit that SMEs face. This win-win scenario promotes financial inclusion and fosters sustainable economic growth.

> "India's digital infrastructure advancements have enabled us to anonymise invoice data across financial institutions. This has revolutionised SME lending, providing lenders with valuable insights into economic activity and facilitating more informed decision-making."
>
> **PRASHANT MUDDU**
> Founder & Chief Executive Officer, Jocata

Leveraging AI: Enhancing Efficiencies and Greater Customer Engagement

Financial institutions are using AI to transform operations and enhance customer engagement, especially for SMEs. By modernising traditional banking processes, they can provide personalised services, streamline loan decision-making, and help SMEs manage their finances more effectively.

> "Usually, loan applications take a week to go through. One of our customers cleared a backlog of 600 applications in one weekend. Customers are getting their loans quicker and overheads come down."
>
> **EAMON SCULLIN**
> Founder & President, Fern Software

AI-driven CRM systems analyse customer data to tailor services to specific SME needs, segmenting clients based on size, location, and behaviour. This allows institutions to offer customised products, such as POS and commercial loans. In the loan approval process, AI accelerates decision-making by assessing complex data, improving creditworthiness evaluations, and enabling better risk management. AI also tracks the loan journey for early interventions and regulatory compliance. SMEs can utilise AI tools to optimise financial operations, automate reporting, and gain insights, while microlearning techniques enhance financial literacy, empowering them to make informed decisions and reduce risk.

FINANCING A SUSTAINABLE FUTURE

Sustainability is a pressing issue for SMEs, many of whom are underserved by banks, located in vulnerable communities, and disproportionately affected by climate change. SMEs can be encouraged to adopt sustainable practices by tying them financial incentives, such as low-cost loans, access to corporate buyers, and energy efficiency measures. Technology will be instrumental in helping SMEs collect and analyse sustainability data that will not only improve compliance but help them make lasting changes.

Harnessing Sustainability-Linked & AI-Powered Supply Chain Finance

Organisations are increasingly adopting sustainability-linked supply chain finance (SCF) to promote ESG goals. By offering favourable terms to compliant buyers and sellers, they incentivise better practices. AI improves SCF efficiency, aligning financial incentives with sustainability.

SMEs, supplying large corporations, often depend on delayed invoicing for short-term capital. Early payments to suppliers with strong environmental and labour practices can ease cash flow challenges. Levi Strauss, for instance, uses sustainability-linked SCF to encourage low-carbon investments and cleaner production methods.

Several key prerequisites facilitate AI integration into SCF:

- **Digitalisation,** through electronic invoicing and digital payment systems, formalises payments and creates new data sources for AI.
- **Standardisation,** with common standards and national supply chain platforms, ensures interoperability.
- **B2B disruption,** driven by the success of B2C Buy Now Pay Later systems, creates opportunities for AI-powered SCF solutions.

> "Our platform matches accounts payable and receivable, providing capital to creditworthy companies. We've discovered a growing demand for ESG and diverse suppliers. By creating sub-markets for these businesses, we can reduce their financing costs."
>
> **ALEXANDER C KEMPER**
> Founder and CEO, C2FO

These factors set the stage for AI-driven SCF to revolutionise supply chain finance, enhancing efficiency, sustainability, and financial outcomes for enterprises and SMEs alike.

The Changing Role of Development Finance in Supporting SMEs: Sustainability and Digitisation

Development Financial Institutions (DFIs) are essential in bridging the financing gap for SMEs, focusing on digital transformation and sustainability. They innovate through digital platforms that improve access to financing and sustainability information. DFIs work with industry bodies, stock exchanges, and initiatives like the SME Climate Hub to promote ESG practices, offering financial incentives for sustainable measures like recyclable packaging. Gender-disaggregated data helps tailor lending products for women entrepreneurs, while BNDES provides financing for communities affected by climate change, promoting resilience and sustainable economic activity.

DFIs also leverage digital channels to engage SMEs directly, using AI-enabled credit models for better risk assessment. To address foreign exchange risks, institutions like Afreximbank raise local currency bonds to support fintechs and SMEs. In Africa, the African Development Bank (AfDB) links mobile platform growth to greater financial inclusion, with fintechs like Wave serving underserved populations. The AfDB's Africa Digital Financial Inclusion Facility addresses challenges like financial literacy and regulation to further enhance digital financial services.

> "There is a very strong movement in gender lens investing. We have developed a value proposition targeted at women that not only focuses on financing but also provides them with mentoring, training, and advisory services. It's a holistic value proposition."
>
> **MARISELA ALVARENGA**
> Managing Director and Chief Investment Officer, IDB Invest

Measuring SME Sustainability: Challenges and Opportunities

Measuring sustainability for SMEs presents challenges, particularly in making data collection practical and accessible. As SMEs face increasing pressure from corporate buyers to meet higher sustainability standards, many struggle with direct requests for data, as their focus is often on business efficiency.

Framing sustainability in terms of business benefits — such as cost savings and improved market access — can encourage compliance. Technology, including geospatial tools, can measure impacts without burdening SMEs. The lack of global standardisation in sustainability reporting is a significant hurdle, but automated solutions that integrate data from existing operational systems could simplify compliance. Public development banks can assist SMEs by offering non-financial services that highlight the connection between sustainability and financial performance, enabling them to secure funding for sustainable initiatives.

> "We need to consider not engaging in a direct conversation about sustainability but about but about business data. What sounds like sustainability data to us are actually metrics about how they operate their business."
>
> **FRANCISCO AVENDANO**
> Global Lead - Climate Finance, IFC

V. SHAPING SME FUTURE: A HOLISTIC PERSPECTIVE

OVERCOMING BARRIERS: SME FINANCING IN EMERGING ECONOMIES

SMEs in emerging economies often encounter significant hurdles in securing the capital necessary to realise their business visions. Whether they need startup, working, or growth capital, these smaller enterprises face challenges that larger, better-resourced businesses do not.

The Credit Crunch. Access to credit is a major obstacle for SMEs seeking to expand their businesses or continue operations. Traditional banks often impose stringent lending requirements, making it difficult for SMEs to secure loans at competitive rates, especially in emerging economies where interest rates are high, and many organisations operate in informal markets.

Two primary inhibitors hinder SMEs' access to credit: lack of collateral and lack of credit history. Many SMEs cannot demonstrate the required collateral, such as real estate, while others may not have a documented credit history due to limited past use of formal credit.

The excessive time required to apply for loans further exacerbates the challenge. SMEs often need short-term financing to cover inventory or bolster cash flow and cannot afford to wait months for loan applications to be processed. The extensive documentation required, even for small loans, can be a burdensome obstacle for resource-constrained SMEs.

> “Traditional credit scores are like driving a car while looking in the rear-view mirror.”
>
> **SHRIKANT PATIL**
> CEO, DigiAlly

The High Cost of Credit. Limited access to financing often forces SMEs to turn to expensive credit options, such as overdrafts, credit cards, and informal loans. In emerging economies, interest rates on these forms of credit are particularly high due to factors like currency fluctuations, inflation, and elevated credit risks. Additionally, many financial institutions have yet to digitise their loan processing operations, leading to high administrative costs that are ultimately passed on to borrowers.

Lack of Non-Financial Support. Beyond financial capital, SMEs often lack the essential non-financial support needed to thrive. Entrepreneurs in the early stages of their ventures or seeking to scale their businesses require assistance with financial planning and management, mentorship and coaching, networking and market access, and regulatory compliance. The absence of this non-financial support can hinder SMEs' creditworthiness and limit their access to capital, creating a vicious cycle.

> "By partnering with industry experts and capital providers, we have created an assessment tool that collects and analyses data to better segment businesses. This has helped us to create a more effective cost assistance model."
>
> **MUMBI MAINA**
> Senior Access to Finance Officer, International Trade Centre

The Digital Divide. Limited access to capital in some regions is exacerbated by underdeveloped financial infrastructure. Many traditional lenders rely on cumbersome processes that require excessive documentation, leading to unreasonable delays. Outdated credit scoring models can unfairly deny credit to SMEs with strong potential. In remote areas, the lack of digital financial infrastructure can render SMEs invisible to lending institutions without a physical presence. Without accounts receivables registries, digital payments, integrated supply chains, and interoperability between financial systems, SMEs may struggle to access necessary financing.

> "In Brazil, only 7% of SMEs use accounting software to manage their finance - the others do it via pen and paper."
>
> **JULIANA AMOROSO**
> Director, Visa

Balancing AI and Ethics. While AI holds immense potential to revolutionise SME financing, responsible deployment is crucial to avoid ethical concerns. Without careful guardrails, issues such as bias, privacy, transparency, and regulation can arise. AI models trained on biased data can perpetuate inequalities, leading to unfair lending decisions and discriminatory practices. The vast amounts of personal and financial data required by AI systems increase the risk of data breaches or misuse, while the lack of transparency in many AI applications makes it difficult to understand how lending decisions are made. Existing regulations may also struggle to keep pace with the rapidly evolving AI landscape, creating uncertainty.

> "Countries are taking time to develop AI regulations due to their complexity. Brazil, inspired by the European model, has postponed its approval three times so far."
>
> **JULIA LUCA**
> Investment Banking - Tech, Itaú BBA

The Financing Gap. The challenge of accessing finance for SMEs can be exacerbated for businesses led by women, vulnerable communities, and those seeking to minimise their environmental impact. Women entrepreneurs, often representing a significant portion of microentrepreneurs in many countries, face systemic barriers to capital. Similarly, entrepreneurs from marginalised groups, operating in underserved regions, struggle to connect with lenders through traditional channels. SMEs striving to reduce their ecological footprint may encounter difficulties without financial incentives and capital to support their sustainability initiatives.

INNOVATIVE SOLUTIONS FOR SME FINANCING

A diverse group of industry leaders participated in panel discussions and roundtables at the Forum, sharing their success stories in leveraging innovation to address the SME financing gap. These discussions showcased a range of innovative solutions and best practices that are driving positive change in the SME finance landscape.

Alternative Credit Scoring Models. AI-powered credit scoring models are revolutionising the lending landscape for SMEs by leveraging new and diverse data sources. Open banking and data-sharing initiatives can further enhance these models by increasing the availability of relevant data. By overcoming data asynchrony, financial institutions can quickly and accurately assess credit risk, enabling them to expand lending to SMEs.

WeBank, a leading Chinese bank, exemplifies this approach by using over 300 data sources, including electronic payments, social media reviews, mobile data, and accounts receivables. Through federated learning techniques, WeBank can securely analyse sensitive data, such as invoices, without compromising privacy. This innovative approach demonstrates the potential of AI-driven credit scoring to improve access to finance for SMEs.

Data-Driven Lending. The availability of large volumes of data is crucial for training effective AI models in the SME financing sector. While established banks in many countries have benefited from the rise of digital banking, startups often face challenges in procuring useful data sources.

Dinie, a pioneering fintech company, encountered this obstacle during its early stages. Lacking sufficient data to develop a robust credit scoring model, Dinie took a bold approach: lending to SMEs to generate its own data. Through this strategy, Dinie has accumulated five years of valuable customer insights, enabling it to refine its credit scoring model and better assess risk.

Accounts Receivables Registries. The lack of traditional collateral that SMEs face when applying for credit can be solved by establishing a registry of accounts receivables.

CERC, launched in Brazil as part of the open banking initiative, is a prime example. By providing SMEs with verifiable proof of collateral, CERC helps reduce the cost of credit. Additionally, it prevents double pledging of accounts receivables, ensuring transparency and preventing fraudulent practices. With three years of data collected, CERC can now analyse relationships between transacting parties, identifying preferred suppliers and facilitating more efficient financing solutions.

Non-Financial Support. Financial institutions are increasingly recognising the value of providing non-financial support to SMEs to foster long-term relationships and drive sustainable growth. Some banks offer discounted rates to borrowers who have completed online training programs to enhance their financial planning and business acumen. Others have developed networking and mentorship programs to facilitate peer-to-peer learning and provide SMEs with valuable guidance. Non-financial support is particularly crucial for women-led SMEs, which may not have established networks of advisors or mentors.

Khan Bank, a participant in the Global SME Finance Forum, exemplifies this approach by providing SME co-working spaces in its branches across the country. By supporting SMEs in improving their financial and business literacy, financial institutions can enhance their chances of success and mitigate their own risks.

Digital Banking. Mobile banking and payment apps have revolutionised the way SMEs access financial services, digitising many previously informal transactions. Even in underserved regions, SMEs can now access lending, non-financial services, and valuable data at their fingertips.

Jocata, a pioneering fintech company, leverages LLM-powered conversational AI to enable banks to connect with SMEs through natural language interactions, including in local dialects. By embedding chatbots into their platforms, banks can communicate with SMEs in their preferred channels, such as WhatsApp, providing a more personalised and convenient experience.

Mobile Outreach. Many banks lack a physical presence in rural areas of developing countries, leaving large swathes of the population unbanked. Mobile outreach is crucial for reaching underserved populations in emerging economies.

In Indonesia, Amartha has successfully leveraged a digital platform to connect banks with entrepreneurs in rural areas, expanding access to financial services. With the support of local ambassadors, it has onboarded over 800,000 women within a year, bringing them into the digital age. The company has disbursed USD 1.4 billion in working capital to more than 2.5 million women borrowers in thousands of Indonesian villages. By integrating with Tokopedia, a leading e-commerce platform, Amartha has enabled entrepreneurs to expand their reach and tap into new markets.

Promoting Sustainability. Incentivising sustainable change is essential for encouraging SMEs to adopt more eco-friendly practices. Many SMEs face resource constraints that hinder their ability to invest in sustainability initiatives.

AECM collaborates with partners to offer discounted loans to SMEs that take the first steps towards transitioning to renewable energy sources. Applicants must calculate their carbon emissions and develop a roadmap for change. Similarly, Progcap provides financial support to micro enterprises installing rooftop solar panels, helping them reduce emissions and cut energy costs. These initiatives demonstrate the power of financial incentives in driving sustainable action among SMEs.

VI. THE FUTURE OF SME FINANCE: EMERGING TRENDS

The Global SME Finance Forum 2024 highlighted several key trends that are poised to shape the future of SME financing. These trends are driven by advancements in AI, sustainability, and the pursuit of inclusive financial solutions.

> "The banks of today will not be the banks of tomorrow."
>
> **JAN SMITH**
> Founding Partner, KoreFusion

AI-Powered Digital Finance. AI's ability to rapidly and accurately assess risk will make it an indispensable tool in SME finance. Businesses will be incentivised to digitise their operations, incorporating registered accounts receivables, electronic payments, and integrated ERP systems to provide lenders with the data needed for effective credit scoring. By adopting digital financial services, SMEs will gain access to AI advisors that can help improve their business practices.

Embedded Finance. SMEs will increasingly leverage embedded finance products to access credit within the digital platforms they operate on. As embedded finance providers accumulate more diverse and comprehensive data, they will be able to refine their credit scoring models beyond current capabilities. This data will not only be used to assess individual risk but also to analyse real-time risk at the industry and regional levels.

> "Embedded banking for SMEs could capture upto 26% of the global SME banking revenue."
>
> **MOHAMED GOULED**
> Vice President of Industries, IFC

Interoperability and Open Standards. The proliferation of fintechs, digital payment providers, and e-commerce platforms in different regions has led to a lack of global collaboration and standardisation. As these organisations scale up and best practices emerge, the need for open standards will become increasingly apparent. Greater data sharing, with a focus on consent and privacy, will be essential for fostering collaboration and innovation among industry participants.

Women Entrepreneurs. Financial institutions are recognising the untapped potential of women entrepreneurs and are exploring ways to address the persistent gender gap in access to finance. The use of gender-disaggregated data and tailored financial products for women-led SMEs will be vital tools in closing this gap.

> "While 35% of entrepreneurs in Brazil are women, 80% lack prior experience. Our program provides the training, mentorship, and funding they need to succeed."
>
> **MYRIAM ETILE**
> Global Head of SMB Insights, Visa Commercial Solutions, Visa

VII. COLLABORATION: THE KEY TO FUTURE SUCCESS

The Global SME Finance Forum highlighted several areas where collaboration among industry participants can drive positive change. By working together, we can address key challenges and create a more vibrant and inclusive SME finance landscape.

Data Sharing. While the value of proprietary data is undeniable, the reluctance to share data due to privacy concerns hinders innovation. By exploring mechanisms such as anonymised datasets, federated learning, data sandboxes, and differential privacy, industry participants can safely facilitate data sharing, leading to improved risk assessment and reduced costs for SMEs.

Digital Financial Infrastructure. Despite significant progress in developing digital financial infrastructure in many countries, there is still room for greater cross-border collaboration. Sharing best practices and lessons learned in building accounts receivables registries, instant mobile transfers, and cross-border payments can help accelerate the development of a more efficient and interconnected global financial system.

AI-Powered Financial Literacy Empowering SMEs with financial literacy tools and education can lead to better decision-making and improved business outcomes. Collaboration among industry participants can identify opportunities to leverage AI to develop tailored educational resources and tools that meet the specific needs of SMEs at different stages of their lifecycle.

Automated ESG Reporting. The increasing demand for sustainability reporting from SMEs presents a challenge in terms of data collection and analysis. Collaboration between supply chain partners, technology and data platforms, and financial institutions can facilitate the development of automated ESG reporting solutions, helping SMEs achieve sustainable outcomes.

Fraud Prevention and Cybersecurity. The growing sophistication of cyber threats in the financial services industry requires collaboration among banks, fintechs, regulators, and cybersecurity providers. By sharing threat intelligence and best practices, the industry can strengthen its defences against cybercriminals and build trust with customers. Networking events and briefings can help educate CISOs about emerging threats, while managed security service providers (MSSPs) can leverage data lakes of security information to enhance industry-wide protection.

Through collaboration, we can create a more secure, efficient, and inclusive SME finance ecosystem that benefits businesses, consumers, and the economy as a whole.

About Ecosystm

Ecosystm is a Digital Research and Advisory Company with its global headquarters in Singapore. We bring together tech buyers, tech vendors and analysts onto one integrated platform to enable the best decision making in the evolving digital economy. Ecosystm has moved away from the highly inefficient business models of traditional research firms and instead focuses on research democratisation, with an emphasis on accessibility, transparency, and autonomy. Ecosystm's broad portfolio of advisory services is provided by a team of Analysts from a variety of backgrounds that include career analysts, CIOs and business leaders, and domain experts with decades of experience in their field. Visit ecosystm.io

About GFTN

The Global Finance & Technology Network (GFTN) is a not-for-profit organisation established by the Monetary Authority of Singapore (MAS) in 2024 to harness technology and foster innovation for more efficient, resilient, and inclusive financial ecosystems through global partnerships. GFTN organises convening forums, offers advisory services on innovation ecosystems, provides access to transformative digital platforms, and invests in technology startups with the potential for growth and positive social impact through its venture fund. Visit gftn.co

About the SME Finance Forum

The SME Finance Forum works to expand access to finance for small and medium businesses. The Forum operates a global membership network that brings together financial institutions, technology companies, and development finance institutions to share knowledge, spur innovation, and promote the growth of SMEs. Established in 2012 by the G20 Global Partnership for Financial Inclusion, the SME Finance Forum is managed by IFC. For more information, visit http://www.smefinanceforum.org

This report is based on the conversations during the Global SME Finance Forum 2024. It is also based on the analysts' subject matter expertise in the area of coverage in addition to specific research based on interactions with technology buyers and technology vendors, industry events, and secondary research.