



# FINANCING GROWTH; SMEs IN GLOBAL VALUE CHAINS

The case for a coordinated G20 policy approach

2016 Edition

A contribution to the G20 agenda in 2016







# FINANCING GROWTH; SMEs IN GLOBAL VALUE CHAINS

The case for a coordinated G20 policy approach

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This publication presents a compilation of chapters by leading thinkers on how to improve the financing of small- and medium-sized enterprises (SMEs) in global value chains (GVCs). Drawing on discussions held during a Roundtable on 31 May 2016 at the OECD Headquarters in Paris, and building upon a first edition produced in 2015 entitled “[Business Access to Global Value Chains and Financing SMEs](#)”, the following pages contribute fresh insights and priorities to G20 Leaders in 2016. Issues addressed include digitalization and cyber security, innovation, financial inclusion, green finance, and financial regulation. Seizing opportunities and overcoming challenges in these areas through coordinated G20 policy approaches will be essential to supporting the financing of SMEs in global markets, thereby fuelling investment and growth.

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BIAC speaks for business at the OECD. Established in 1962, we stand for policies that enable businesses of all sizes to contribute to growth, economic development, and prosperity. Through BIAC, national business and employers federations and their members provide expertise to the OECD and governments for competitive economies, better business, and better lives. See [www.biac.org](http://www.biac.org)

**About B20 China**

In 2016, B20 China will continue to support the commitments the G20 has made to promote financing and improve global economic governance. This support will focus on financing growth, trade and investment, infrastructure, SME development, employment and anti-corruption, and will foster communication and develop consensus between all parties. China hopes that the international business community, international organizations, consultancies and scholars will work closely to host a successful B20 thereby boosting innovative development, building an open world economy and enhancing global economic governance. <http://www.b20-china.org/>

**About World SME Forum**

The World SME Forum (WSF) was established in May 2015 by the International Chamber of Commerce (ICC) and the Union of Chambers and Commodity Exchanges of Turkey (TOBB), as part of the 2015 B20 SMEs Development Taskforce proceedings. WSF mission is to improve the growth and impact of SMEs globally, through advocacy and research, advisory services, and ePlatforms. WSF represents SMEs in international bodies and facilitates their access to finance, global value chains and markets. The G20 Heads of State welcomed the creation of WSF as the first private-sector led entity to represent and support SME development. [www.worldsmeforum.org](http://www.worldsmeforum.org)

**About SME Finance Forum**

Small businesses account for over 95 percent of businesses worldwide and provide more than half of all jobs. Yet 200 million businesses worldwide don't have the financing they need to invest, grow, and create new jobs. The SME Finance Forum [www.smefinanceforum.org](http://www.smefinanceforum.org) 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. The Forum was established in 2012 by the G20, and is managed by the International Finance Corporation (IFC).

**The opinions expressed and arguments employed herein represent those of the individual authors and do not necessarily reflect the views of BIAC, B20 China, World SME Forum, or SME Finance Forum.**







# PREFACE

The world economy is now growing at the lowest rate since the onset of the global financial crisis in 2008-09. Companies of all sizes encounter significant policy uncertainties and regulatory burdens that constrain their business activities in markets. Achieving the G20's additional 2% growth scenario by 2018 will only be possible through governments' commitment to enable private sector led growth and entrepreneurship. This calls for internationally consistent and evidence-based policies that support the competitiveness of our economies and thereby contribute to more robust, sustainable, and inclusive growth. Such policies matter for companies of all sizes, and in particular for the many small- and medium-sized enterprises (SMEs) that operate in our economies. By participating in global value chains (GVCs), SMEs play a fundamental role in supporting world trade and investment, while at the same time enhancing their productivity and innovative potential.

However, SMEs cannot seize opportunities in world markets without access to the financial services they require to compete, grow, and add value in and across our economies. As evidenced by the OECD, access to credit is one of the key cylinders of the global economy that is underperforming and holding back growth. Governments and the private sector must work together to strengthen the participation and financing of SMEs in GVCs, and thereby help to realize the G20 China Presidency's ambition for an innovative, invigorated, interconnected, and inclusive world economy.

As explored in the chapters of this publication, a number of opportunities are emerging that will enhance SME finance in GVCs. The rise of the digital economy is opening up a wealth of innovative new financing applications and is increasing financial inclusion more than ever before. The authors also explore how green finance stands to enable many SMEs. Skills development initiatives and information-sharing platforms will also enhance SMEs' capabilities to access the financial services they require. And importantly, while there has been particular attention since the crisis devoted to restoring financial stability, chapters in this publication call for a balanced regulatory approach that also considers economic growth and investment.

The B20 Turkey Presidency in 2015 offered an important contribution to unlocking opportunities for SME financing in GVCs, and this work is being carried on by the B20 China Presidency this year to deepen our understanding of what actions are required and how they can be implemented. Crucially, this requires a comprehensive and coordinated G20 approach in which public and private sectors have complementary roles to play. In contribution to the G20 China Presidency in 2016, this publication builds on a Roundtable on *Financing SMEs in Global Value Chains* held on 31 May 2016 and presents a compilation of perspectives on the new opportunities and inherent challenges that face SMEs as they seek to finance their activities in global markets.



Bernhard Welschke  
*BIAC Secretary General*



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# **SECTION 1**

## **Connecting SME finance and economic growth**



# – Chapter 1 –

## Taking a holistic approach to SME finance and sustainable growth

Gianluca Riccio, CFA

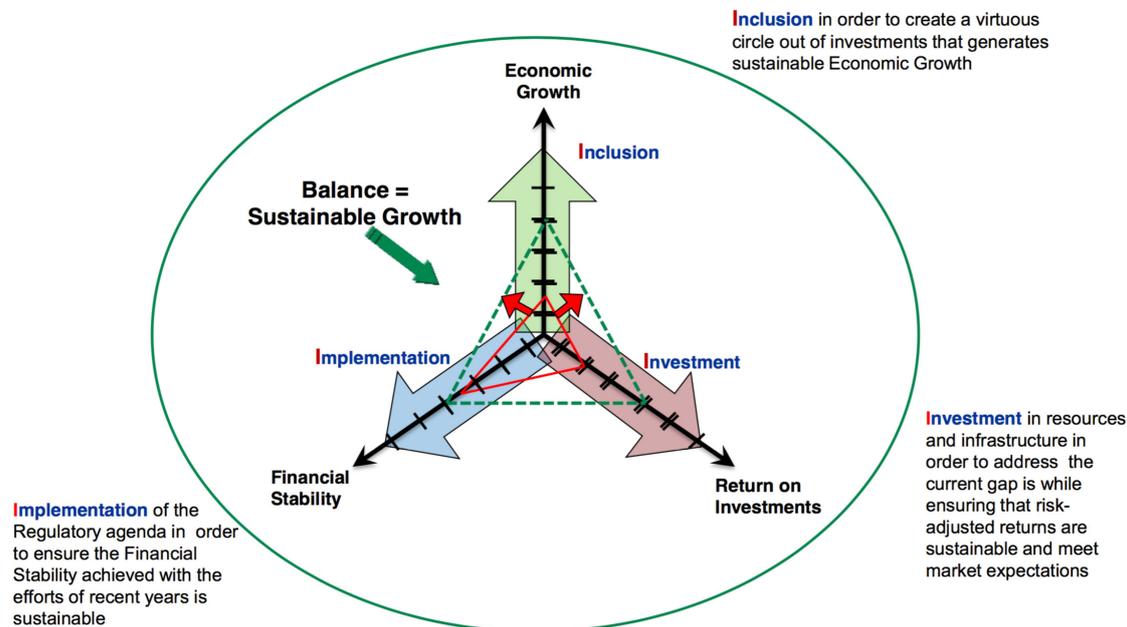
Vice Chairman, Finance Taskforce  
BIAC

Financing Growth Taskforce  
B20 China

### Joining the dots

In 2015, representatives from SME associations, governments, financial institutions, large corporates, and international organisations gathered for a BIAC-B20 Turkey special event at the OECD Headquarters in Paris to share perspectives and identify G20 priorities for enhancing *Business Access to Global Value Chains and Financing SMEs*<sup>1</sup>. By recognizing the fundamental role that SMEs play in adding value to products and services along global value chains (GVCs)<sup>2</sup>, the event examined the interlinkages and ‘common denominators’ across all B20 recommendations (spanning trade, investment, employment, entrepreneurship, financing, and more) to develop a truly holistic understanding of the financing of SMEs and the markets in which they compete. Put simply, participants took a first step to “join the dots”.

*Figure 1: A conceptual framework developed for the BIAC-B20 Turkey special event in 2015*



<sup>1</sup> BIAC-B20 Turkey (2015) “*Business Access to Global Value Chains and SME Financing*”.

<sup>2</sup> GVCs are important not only as being a key building block of today’s global economies, but because they offer an end-to-end platform to “cross-check” various recommendations. GVCs proffer the opportunity to see how trade, employment, economic growth, employment policies and financial regulations interact and ultimately impact the economy.

Thus the key questions participants asked themselves in 2015 were as follows: **Are objectives for financial stability, economic growth, and returns on investment, sufficiently aligned in order to sustainably support our economies and societies ?** And therefore what are the recommendations needed to achieve a sustainable balance ? See Figure 1 above.

The conclusions of the BIAC-B20 Turkey initiative helped to pave the way for actions by G20 Leaders at their Summit in Antalya in November 2015. Our **three overarching recommendations** to G20 Leaders were as follows:

- 1. Focus on coordination, consultation, and impact assessment.** Participants underlined the importance of recognizing the broader economic impacts and cumulative effects of G20 policy and regulatory approaches – both domestically and across borders – within the key *nexus of financial stability, economic growth, and return on investment*. Consistent implementation plays an essential role in delivering effective policies and regulations, recognizing that inconsistencies and uncertainties can hamper policy objectives.
- 2. Raise SME access to finance and skills through an integrated approach.** Participants expressed that a predictable and enabling policy environment is necessary to allow and support different actors to undertake voluntary approaches that ensure seamless financing to SMEs in GVCs. This calls for an *integrated approach* along GVCs that combines diverse forms of suitable, fit-for-purpose finance.
- 3. Maximize the sharing of information through digital platforms.** Participants emphasized the sharing of timely information between different actors (including SMEs, large corporates, and financial service providers). Such information exchange will enhance the flows of financing, skills, and investment throughout GVCs. This can lead to a more level playing field, particularly if supported by the creation of a central global online platform for data and information exchange.

This publication will now build on these recommendations and examine the issues, both old and new, affecting the financing of SMEs in global value chains in 2016. Let me set the scene by highlighting the following two current trends for which a coordinated and holistic G20 response is needed.

## “Generals always prepare to fight the previous war”

Since the 2008-09 global financial (and economic) crisis, governments and regulators have been taking decisive actions to prevent a similar crisis from occurring in future. In other words, they have been **gatekeepers of stability**. But the situation today is very different compared to pre-crisis times. The global economy is struggling to recover to its pre-crisis level of trend growth (Figure 2).<sup>3</sup> Forecasts failed to anticipate the slowest post-crisis business investment recovery in the last 40 years (Figure 3). We also witness the growth of shadow banking, where post-crisis financial reforms aimed at enhancing stability have had the unintended consequence of exacerbating the shifting business and related risks to non-bank alternative lenders, who for the most part operate outside risk weighted capital rules, and whose ultimate contribution to the real economy has not been able to match the loss of input from more regulated routes. More than ever, we need governments and regulators to shift from **gatekeepers of stability** towards being **enablers of growth and investment**.

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<sup>3</sup> 2016 Economic Report of the President – Chapter 3 (The global macroeconomic situation)

Figure 2: Real GDP Growth Forecast 2010-2020

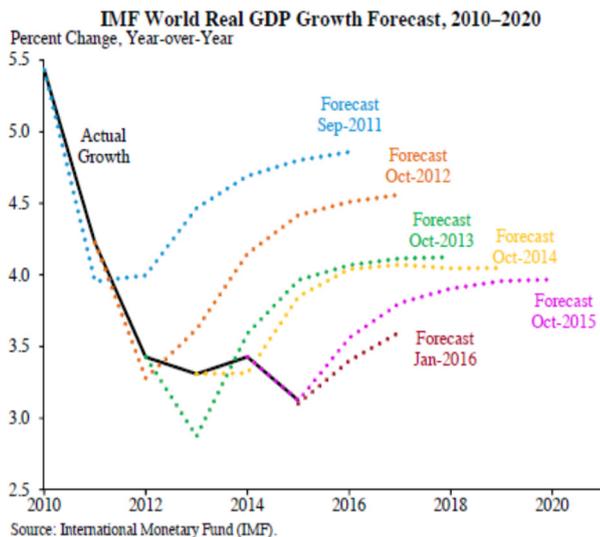
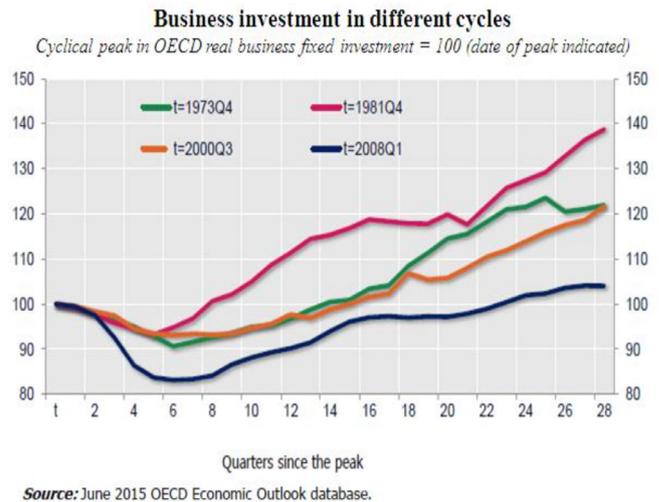


Figure 3: Business investment in different cycles



While the reasons for weaker-than-expected recovery are many, there is a strong case for taking a close look at how policies are affecting SMEs in GVCs. A case in point is well represented by the ICC 2015 Global Survey on Trade Finance<sup>4</sup>, which points out that despite a decline in trade growth, there has been a clear rise in demand for trade finance instruments to cover potential default risk under cross-border commercial contracts. This reflects an increased perception of risks in global markets – whether commercial, bank, and/or country – and is perhaps reflective of the failure of some policies and the unintended consequences of others (e.g. some financial stability reforms)<sup>5</sup>. The lack of proper cross-border and cross-policy coordination during the implementation of regulations adversely affects trade finance flows and financial inclusion, particularly in higher risk sectors (such as SME financing in emerging economies). Consider for instance that 70% of respondents to the ICC survey have had their transactions refused due to Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations, with 46% of respondents experiencing termination of correspondent relationships due to related costs and complexities. Both KYC and AML are of paramount importance, but is the layering of uncoordinated rules resulting in “throwing the baby out with the bathwater”?

More recently, the consultation paper issued by the Basel Committee on new constraints in modelling Risk-Weighted-Assets<sup>6</sup> provides further evidence of the “silo” approach to financial stability, the disregard of the impacts on economic growth, and the heightened differences with other measures being introduced at the same time – such as IFRS9. This increases inconsistency and uncertainty, which would likely increase cross-border variations in their implementation and constrain growth. Identifying and addressing such unintended consequences of policies and regulations must be a top priority for the G20 in 2016.

<sup>4</sup> 2015 Rethinking Trade and Finance, ICC, September 2015

<sup>5</sup> BIAC (2014) “The case for a more coordinated approach to financial regulation”.

<sup>6</sup> Basel Committee on Banking Supervision – Consultative paper - Reducing variation in credit risk-weighted-assets- constraints on the use of model approaches; 24 March 2016.

## Financial inclusion and going digital: new opportunities, new challenges

The contribution of the Internet to the world economy has been growing enormously over the last decade to an estimated average of 5% of GDP across G20 countries (in some countries peaking well above 10%). If it were a national economy, the Internet economy today would rank among the top five nations.<sup>7</sup>

These impressive numbers represent a rare opportunity for SMEs, particularly within global value chains, to both reduce costs and increase target markets. Relative efficiencies and cost structures are changing, and global sources of production are shifting and becoming more complex. Companies must therefore adapt their strategies. Those that effectively harness the power of digitization to transform their businesses will achieve greater competitiveness and realize significant growth.

These shifts in the global distribution of jobs and economic opportunity carry with them many challenges for governments, business, and society at large. It is well-documented for example that, in an interconnected world, effects arising from financial crime are global and can undermine security, economies, development, and social cohesion. It is therefore necessary and appropriate that the international community has prioritised the fight against cyber-risk, money laundering, and terrorist financing. But addressing these challenges calls for actions by (and dialogue between) governments, regulators, civil society, and the private sector at the G20 level, to tackle new challenges while avoiding unintended consequences.

### Next steps

In 2016, the G20 China Presidency has enormous potential to promote a **holistic, coordinated and balanced approach to policy and regulation** (see Figure 1), as described in this chapter and publication as a whole, in a way that is conducive to sustainable growth. By doing so, each G20 government can better understand how its policy actions may impact the functioning of global markets and value chain – including SMEs in particular, as they represent the smallest links in global value chains and also constitute the foundation of the world economy. This comprehensive approach is the “cross-check” required for global economic lift-off. By emphasizing this approach, the G20 could moreover ensure continuity from the Turkish Presidency to the German Presidency and beyond. Continuity is essential for developing consistent and predictable policies that are critical to enhancing investor confidence and delivering the strong, sustainable, inclusive growth that the world needs.

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<sup>7</sup> Boston Consulting Group.

# – Chapter 2 –

## State of the global economy in 2016

Jason Furman

**Chairman of the Council of Economic Advisers  
President Barack Obama’s Chief Economist and Member of the Cabinet  
United States**

Eight years ago, the OECD economies were facing a moment of maximum peril – and the Euro zone economies went through another acute round of crises in the years that followed. Output was plummeting and unemployment was soaring.<sup>8,9</sup> We are now well past that moment of peril. Many of the major economies, including the United States, Germany and the United Kingdom, have exceeded their pre-crisis per capita real GDP and have unemployment rates that are consistent with pre-crisis levels, and the Euro zone saw its growth pick up in 2015 relative to 2014. One cannot overstate the importance of the progress we’ve made since the financial crisis.

But while the maximum peril is past us, more still needs to be done in many countries to complete the recovery as important risks could still derail economic growth. Our long-run challenges are considerable but can be addressed, yet a failure to restore robust sustained growth will make those long-run challenges all the more difficult.

The Euro zone as a whole still has real output per capita below where it was in 2007, coming close to a decade of lost activity. While some of the peripheral countries have seen strong growth and meaningful declines in unemployment recently, unemployment remains much too high. Japan, conversely, has seen low output growth even amid a twenty-year low in unemployment. There are signs this is not purely a supply problem. Almost all of the major economies are below their inflation targets, and global commodity prices have fallen sharply. Additional demand and investment is needed from many countries, and concerns about lack of fiscal space are generally not justified when the additional demand is needed to raise GDP – a critical part of the effort to achieve the underlying fiscal goal of cutting deficits and debts as a share of GDP.

At the same time, this continuing recovery faces risks. Last year saw the weakest global growth since 2009, largely reflecting a slowdown in emerging economies—including slower growth in China, significant declines in Brazil and Russia, and weak growth in many commodity exporters.<sup>10</sup> These developments are weighing on the OECD countries’ exports and GDP growth.

In addition, financial markets have been volatile due to weaker global growth, uncertainty regarding China’s economic transition and exchange rate policy, changes in advanced-economy monetary policies, the future of the Euro zone and the European Union more broadly, and the implications of declining commodity prices for commodity-producing countries and firms. These financial and banking sector stresses could pose a threat to economic growth in a number of OECD economies and should be addressed vigorously and directly.

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<sup>8</sup>OECD (2016), Quarterly GDP (indicator). doi: 10.1787/b86d1fc8-en (Accessed on 01 April 2016)

<sup>9</sup>OECD (2016), Harmonised unemployment rate (HUR) (indicator). doi: 10.1787/52570002-en (Accessed on 01 April 2016)

<sup>10</sup>IMF, World Economic Outlook Update, January 2016

Apart from these short-run considerations, however, the OECD economies face the twin structural challenges of low productivity growth and rising inequality. Productivity growth is projected to be lower than it was prior to the financial crisis and has slowed in most of the OECD economies, and although the United States has seen some of the strongest productivity growth in the last ten years compared to any of the large OECD economies, its productivity growth remains too slow.<sup>11</sup> This productivity shortfall is why output growth rates have consistently come in below the projections by the OECD and others.

The data from recent years do not inevitably mean that these trends will continue. There is much reason to believe that, at least in part, the productivity slowdown represents temporary responses to the recession, including reduced business investment and diffusion of innovation that will rebound over time—potentially even with some catch-up in investment.

But, at the same time, while my hope is that productivity growth rebounds I would not take it for granted, especially when it is the fuel for overall economic growth. Taking steps to improve access to finance for SMEs, increase investments in research, infrastructure, expanding trade, reforming tax systems, reforming immigration systems, and other steps are critical to help raise productivity growth. In our more globalized economy, incentives for innovation and investment are global, and our policy choices affect one another encouraging groups like the OECD to push together towards better outcomes.

Finally, the past several decades have shown that productivity growth is not automatically shared with all workers. Inequality has risen steadily across most of the OECD economies, with especially large challenges in the United States.<sup>12</sup> This presents a number of obstacles to growth, including fewer talented workers to contribute to the economy. That is why it is also essential to unlock opportunities for more people and firms to participate in markets, and so take steps to ensure that the gains from the economy are better shared. Steps will vary from country to country, but in the United States include raising the minimum wage, strengthening unions and workers' voice, supporting educational opportunities, and making the tax system more progressive.

The United States will be looking to partner actively with the OECD, the G20, and the business community—including BIAC – to advance this important agenda. While the particular issues vary from country to country, SMEs and especially new businesses are vital to productivity growth in all countries. We all have a lot to learn from each other and in every case working with businesses is critical – and not just on fostering productivity growth, but also on making sure that the benefits of that growth are better shared in the form of more high paying jobs.

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<sup>11</sup> OECD (2016), Labour productivity forecast (indicator). doi: 10.1787/cb12b189-en (Accessed on 01 April 2016)

<sup>12</sup> OECD (2016), Income inequality (indicator). doi: 10.1787/459aa7f1-en (Accessed on 01 April 2016)

# – Chapter 3 –

## Escaping the low growth trap and enabling SMEs to contribute to inclusive and productive societies

Rintaro Tamaki

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### Introduction

Eight years after the worst global crisis since the Great Depression, prospects for the world economy remain weak. Global GDP growth is projected to be 3% in 2016, with only a modest improvement foreseen in 2017. Growth remains elusive in advanced economies, well-below the pre-crisis norms, and has slowed down in emerging market economies, especially for commodities exporters. High, though declining, unemployment in the Euro Area, and low wage growth in the United States and Japan are holding back private consumption and contributing to high inequalities. While this weakness is in part cyclical, it also results from a slowdown in productivity growth which predates the crisis. In most OECD countries, labour productivity growth has been declining since the early 2000s. A slowdown in productivity is now also observed in emerging economies, despite their comparatively low productivity levels and continued scope for catch up.

What is more, the outlook is subject to significant downside risks, including risks of financial instability. In many OECD economies, there are signs that the prolonged period of slow growth, with extended unemployment, foregone investment, weak trade and low productivity growth, is harming the longer-run supply-side potential. Emerging economies have high private debt burdens and remain vulnerable to capital outflows and weaker-than-expected growth. Financial market volatility has eased and global asset and commodity prices have recently picked up. However, the monetary and fiscal stimulus in China, which has been crucial for this stabilisation, might also refuel imbalances, which could spill over to other emerging markets with high credit growth and elevated debt levels (OECD, 2016a, 2016b).

### SMEs have a key role to play for a sustainable recovery

As the world economy grapples with these numerous challenges, governments increasingly look to SMEs as a key driver of sustained and inclusive growth. The importance of SMEs to growth, innovation, job creation and social cohesion cannot be overstated. Across OECD countries, SMEs typically account for more than half of business sector activity and around two-thirds of employment. In emerging economies, SMEs deliver on average more than 40% of GDP and 50% of employment. Young, small firms, in particular, contribute disproportionately to creating jobs.

Yet, business dynamics have been slowing in most OECD economies and there are signs of lagging productivity in the SME sector, particularly in micro- and small firms. Raising investment and productivity levels in SMEs is crucial to strengthen the recovery and ensure growth patterns have solid foundations. It is also key in order to help small businesses tap into global markets, particularly through participation and upgrading in global value chains. At the same time, the productive investment and financing needed to underpin economic growth are hampered by fragmentations in and across corporate and financial sectors (OECD, 2016b).

## SME finance is recovering, but the outlook is uncertain

While access to finance alone is not a sufficient condition for small firms to innovate, upgrade, become more productive and participate in global markets, it is one of the keys to unlocking their potential. The 2016 edition of the *OECD Scoreboard on Financing SMEs and Entrepreneurs* shows that, after several years of serious difficulties, SME access to credit appears to have turned the corner. The outstanding stock of SME loans in 2014 surpassed 2013 levels in a large number of countries, including some of the countries whose SME lending was most affected by the economic and financial crisis. For example, credit to SMEs expanded by more than 2% in 2014 in Greece. In Chile, Colombia and Turkey, the annual growth in SME lending surpassed 10%.

On the other hand, progress has been uneven. In Spain, despite a robust expansion of 8.5% between 2013 and 2014, new lending to SMEs stood at only 36% of its pre-crisis level. In the United Kingdom, net lending, the difference between new lending and repayments, only turned positive in the first quarter of 2015, after a continuous decline since 2008. Credit conditions for SMEs, which tightened significantly in the years after the crisis, are gradually improving, as a consequence of the unprecedented monetary easing in many parts of the world. Yet, conditions remain much tighter for SMEs than for large enterprises, with rising or persistently high interest rate spreads in most countries (OECD, 2016c).

Despite recent improvements, SME financing will remain fragile in the medium term. The downside risks in the macro-economic outlook may reverse recent gains, and bank deleveraging will continue to impact SME lending disproportionately, especially in countries where the banking system is burdened by high levels of non-performing loans.

## The G20/OECD High-Level Principles on SME Financing provide a guiding framework to enhance SME access to finance

Efforts to improve banks' capacity to lend to SMEs should be pursued, since bank financing will continue to be crucial for the SME sector and a well-functioning banking system represents a pre-condition for the development of financial markets and alternative instruments that can serve SMEs. At the same time, there is a pressing need to broaden the range of financing instruments available to SMEs and entrepreneurs, particularly for newer, innovative and fast growing companies, which often face a significant growth capital gap. Increasingly complex and interconnected financial markets offer opportunities to serve the diverse needs of SMEs, but financing instruments alternative to traditional debt still represent only a small source of SME funding. In the Euro zone, for instance, only 3% of SMEs report using equity financing (OECD, 2015; EC/ECB, 2014).

Cross-cutting policy strategies to enhance SME access to finance are needed to provide a coherent framework for government actions in this area, within the broader policy ecosystem for SMEs. The *G20/OECD High-Level Principles on SME Financing*, welcomed in November 2015 by G20 Leaders, provide a coherent framework to support governments in the development of such strategies, taking into account both supply- and demand-side constraints.

The Principles recognise the importance of designing and implementing regulation that supports a range of financing instruments for SMEs, without compromising financial stability, investor protection and returns on investment. Getting regulation right is necessary to strengthen banks' capacity to lend to SMEs, enable small businesses to diversify their sources of finance and attract a range of investors to SME finance markets. Yet recent regulatory reforms focused on banks may have yielded some unintended

consequences. For example, higher capital and liquidity requirements for banks have hampered their market-making function and reduced market liquidity. In addition, current extraordinary monetary policy measures like quantitative easing and low and negative interest rates are creating demand for higher-yielding assets, distorting risk-pricing and negatively impacting liquidity in some parts of the market.

## Working together to advance the SME agenda

Responding to the call by G20 Finance Ministers and Central Bank Governors, the OECD will work to identify effective approaches to implement the Principles, in cooperation with other international organisations and relevant stakeholders. We will also continue our leading efforts to advance the state of knowledge on the factors affecting SME performance and the requisite policy responses.

Continued dialogue with the private sector will be a central part of this process, to ensure that the right collective strategies are developed and implemented to enable SMEs to contribute to more productive and inclusive societies.

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# – Chapter 4 –

## Why SMEs and GVCs should remain in the focus of the G20/B20 agenda

Alexander Shokhin

**President of the Russian Union of Industrialists and Entrepreneurs (RSPP)**

The simple answer to the question raised in the title is that both small- and medium-sized enterprises (SMEs) and global value chains (GVCs) are drivers of growth. SMEs' contribution to inclusive growth and job creation is hard to overestimate. This is true for advanced, emerging and developing economies. In high income economies they contribute more than 60 percent to both GDP and employment.<sup>13</sup> In developing countries and emerging economies, on average, SMEs employ up to 45 percent of formal sector workers and contribute about a third of GDP.<sup>14</sup> Although at first sight these figures are lower than in advanced economies, they become comparable or even higher if adjustment is made to take into account the estimates for SMEs operating in the informal sector.<sup>15</sup> Moreover, in some of the poorest countries, SMEs' contribution to economic development is extremely high. For instance, along with micro-enterprises, they account for more than 80 percent of employment in Bangladesh, Ghana and Rwanda.<sup>16</sup>

GVCs support innovative growth through transfer of technologies, know-hows and skills. They constitute the nexus between investment and trade, have a high potential to contribute directly and indirectly to GDP, employment generation, upgrading of working conditions and long-term industrial development.<sup>17</sup> As UNCTAD research indicates *“domestic value added created from GVC trade can be very significant relative to the size of local economies. In developing countries, value added trade contributes some 28% to countries' GDP on average, as compared with 18% for developed countries”*.<sup>18</sup> A positive correlation between participation in GVCs and GDP per capita growth rates is noted and quantified: economies with the fastest growing GVCs participation rates have GDP per capita growth rates some two percentage points above the average.<sup>19</sup> GVCs have the potential to provide local SMEs in developing countries with opportunities to link into tasks and activities both upstream and downstream in the value chain. Thus linked together SMEs and GVCs can constitute a powerful source, directly and indirectly contributing to the much needed structural reforms, including in labor and product markets. However, in the G20 agenda the two issues emerged separately and became coupled only recently.

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<sup>13</sup> IFC (2010) “The SME Banking Knowledge Guide”.

<http://www.ifc.org/wps/wcm/connect/b4f9be0049585ff9a192b519583b6d16/SMEE.pdf?MOD=AJPERES>.

<sup>14</sup> IFC (2010) “Scaling-Up SME Access to Financial Services in the Developing World”, October.

[http://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/industries/financial+markets/publications/scaling-upsme+access+to+financial+services+in+the+developing+world](http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/publications/scaling-upsme+access+to+financial+services+in+the+developing+world).

<sup>15</sup> Dalberg (2011) “Report on Support to SMEs in Developing Countries Through Financial Intermediaries”, November. [http://www.eib.org/attachments/dalberg\\_sme-briefing-paper.pdf](http://www.eib.org/attachments/dalberg_sme-briefing-paper.pdf).

<sup>16</sup> MSME Country Indicators. SME Finance Forum. <http://www.smefinanceforum.org/data-sites/msme-country-indicators>.

<sup>17</sup> UNCTAD (2013a) “WORLD INVESTMENT REPORT. GLOBAL VALUE CHAINS: INVESTMENT AND TRADE FOR DEVELOPMENT” [http://unctad.org/en/PublicationsLibrary/wir2013\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf).

<sup>18</sup> Zhan, J. (2013) “Public-Private Sector Partnerships to Promote SME Participation in Global Value Chains”.

[http://unctad.org/meetings/en/Presentation/ciem3\\_p01Zhan\\_en.pdf](http://unctad.org/meetings/en/Presentation/ciem3_p01Zhan_en.pdf).

<sup>19</sup> Ibid.

G20 members have addressed issues related to SMEs at each meeting since the 2009 Pittsburgh Summit. Their commitments in this area have focused on providing assistance to SMEs and stimulating financial inclusion. In the Pittsburgh<sup>20</sup> and Toronto<sup>21</sup> declarations, these commitments focused on ensuring better access to financial services. In the Seoul summit document, the G20 leaders explicitly recognized the vital role of SMEs in employment, income generation and economic development.<sup>22</sup> They again committed to increase access to finance for SMEs.<sup>23</sup> Since the Seoul summit, the SMEs contribution to economic development has become an integral part of the G20 narrative and action. In the same document, the leaders committed to identify, enhance and promote responsible private investment in value chains aiming to maximize economic value-added and job creation arising from private sector investment in value chains.<sup>24</sup> In St. Petersburg, the leaders for the first time highlighted the link between a well-functioning SME sector, strong economic growth and job creation.<sup>25</sup> The Brisbane Summit Communiqué and Action Plan contain a set of commitments on different aspects of SME financing.<sup>26</sup> Convergence of these SME and GVC-related issues on the G20 agenda has been a gradual process, with a clear initial focus on fostering the development of SME finance through the Global Partnership for Financial Inclusion (GPFI) and integration of financial inclusion principles in international financial standards.<sup>27</sup>

In St. Petersburg, the G20 reinforced and expanded their vision of the SMEs in boosting economic growth, job creation and development and committed to encourage the private sector, including SMEs, as one of the most important partners in fostering inclusive economic growth, job creation, and labor absorption. To the G20's credit, compliance with the commitment was high with an average of 93 percent. In Brisbane, the G20 pledged to work together to facilitate long-term financing from institutional investors, particularly for SMEs. Again compliance performance was high with the average score of 85 percent. However, none of the summits preceding Antalya made an emphasis on the need to support SMEs' integration into GVCs. In 2015, the G20 focused on promoting better integration of SMEs into GVCs, in particular in low-income developing countries (LIDCs).

Responding to the G20 Turkey Presidency's priority of Inclusiveness, the B20 leveraged on its previous experience and agreed five recommendations aimed at: improving SME access to international markets through capacity building and supporting compliance with international standards; harmonization and consistent application of international standards to ensure a level playing field for SMEs; and improving access to finance, managerial and entrepreneurial skills, and the digital economy and innovation ecosystems.

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<sup>20</sup> The G20 Pittsburgh Summit Commitments, G20 Research Group.  
<http://www.g20.utoronto.ca/analysis/commitments-09-pittsburgh.html>.

<sup>21</sup> The G20 Toronto Summit Commitments, G20 Research Group.  
<http://www.g20.utoronto.ca/analysis/commitments-10-toronto.html>.

<sup>22</sup> G20 Leaders (2010) The Seoul Summit Document, para 57.  
<http://www.g20.utoronto.ca/2010/g20seoul- doc.html>.

<sup>23</sup> Ibid, para. 51 (g)

<sup>24</sup> Ibid, para. 51 (d)

<sup>25</sup> The 2013 G20 St. Petersburg Summit Commitments, G20 Research Group.  
<http://www.g20.utoronto.ca/analysis/commitments-13-stpetersburg.html>.

<sup>26</sup> The 2014 G20 Brisbane Summit Commitments, G20 Research Group.  
<http://www.g20.utoronto.ca/analysis/commitments-14-brisbane.html>.

<sup>27</sup> G20 Leaders (2011) Cannes Summit Final Declaration – Building Our Common Future: Renewed Collective Action for the Benefit of All, para.78. <http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104- en.html>.

These recommendations strived to remove barriers to SME participation in GVCs, such as insufficient technological capacity to meet the standards and requirements of multinational enterprises, inadequate infrastructure, skills and know-how.<sup>28</sup> Increasing SME capabilities to participate in GVCs and provision of an enabling environment were viewed by the B20 as two cornerstones for enhancing competitiveness and participation of SMEs in GVCs.

Our recommendation was reflected in the 2015 G20 Leaders' Communiqué, where the G20 promised to support policies that enable firms of all sizes, particularly SMEs, in countries at all levels of economic development, to participate in and take full advantage of GVCs – including greater participation and value addition by developing countries. The Chinese G20 Presidency also called on its partners to explore the possibility of formulating initiatives aimed at strengthening capacity building and policy coordination to substantially improve participation of SMEs, as well as developing countries, in GVCs and their capabilities to trade and invest, with a view to building a rules-based GVCs system that is both consistent and inclusive.<sup>29</sup> Thus the G20 has gone a long way towards bringing SMEs into the heart of its trade and investment agenda. The B20 is well placed to support the G20 in delivering on its commitments, given the essential role of partnerships between the public and private sectors in enabling SMEs to access international markets for the benefit of innovative, productive, and inclusive growth.

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<sup>28</sup> UNCTAD (2013b) “Public-private sector partnerships to promote small and medium-sized enterprises participation in global value chains”. Note by the secretariat, February. [http://unctad.org/meetings/en/SessionalDocuments/ciem3d2\\_en.pdf](http://unctad.org/meetings/en/SessionalDocuments/ciem3d2_en.pdf).

<sup>29</sup> Xi Jinping (2015) Theme and Key Agenda Items of the G20 Summit in 2016. <http://www.g20.org/English/China2016/G202016/201512/P020151210392071823168.pdf>.

# – Chapter 5 –

## Awash with liquidity, but little for SMEs

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In response to the financial crises of 2008-09 and 2012-13, central banks in major OECD countries implemented decisive and unprecedented monetary policies, aiming at restoring access to the bank credit channel for businesses and households, and preventing deflation. In the period 2008-2014, the Fed injected about 2.5 trillion dollars of new liquidity, i.e. monetary base, while the ECB is in the process of going even farther from the current level of about €2.3 trillion, through the purchase of government securities and other liquidity enhancing measures on a larger scale than in the past. This was coupled in the US with a fiscal policy stimulus consisting of higher spending and tax relief – an approach that the Euro area governments followed only to a limited extent, as they mostly left the automatic fiscal stabilizers to run their course.

The outcome on both sides of the Atlantic has been an end to the economic recession and avoidance of deflation, but growth and credit market developments have increasingly diverged between the two economic areas. The American economy recovered earlier and has been growing at a sustainable pace, which is however slower than the pre-crisis rate. In contrast, stagnation has been plaguing the euro economy with yearly growth rates around 1 per cent and some euro member countries even experiencing a relapse into recession, or disappointing growth and high unemployment. It seems that all that liquidity has not found a way to reach the real economy to such an extent as to contribute to a vigorous growth by funding a rise in consumption and investment.

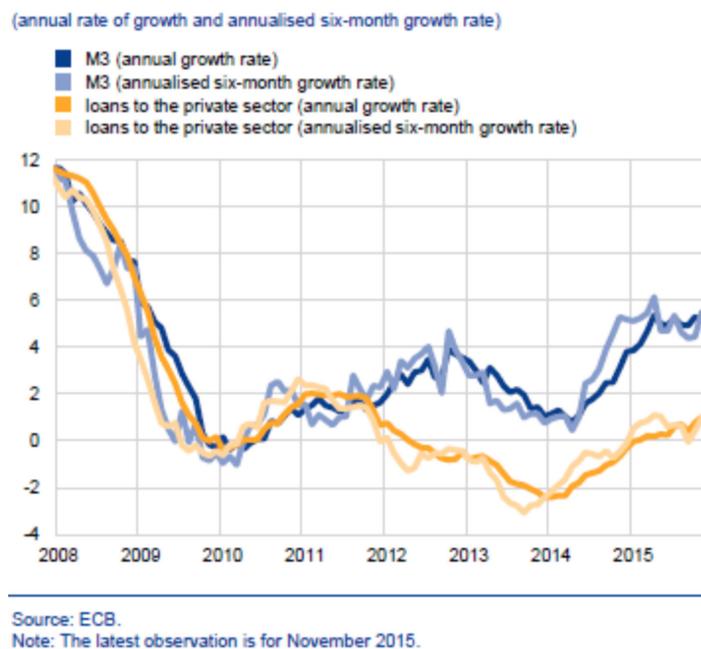
Hence, the question: where has all the created liquidity gone? The flow-of-funds accounting framework can shed light by looking at the main categories of final users of liquidity. In the US, according to the Fed, domestic non-financial debt of the business sector has been rising at an accelerating rate, from 2.8 % in 2011 to 6.6% in 2015, indicating that access to credit is broadly back to normal. Within the business sector, other evidence stemming from small business surveys and Fed survey of banks' senior loan officers shows that in the past three years, enterprises, including small firms, have seen their financing needs increasingly satisfied and at declining cost, albeit in the last 2015 quarter a tightening of credit standards has taken place and is continuing in 2016. Overall, SMEs' access to finance has improved to the point that it is no longer their main concern. Instrumental in this result have been the rapid and decisive measures taken by both the Government and the Fed in spurring economic recovery and assisting banks for an early resolution of the problem posed by their sizeable amount of non-performing assets. Furthermore, the traditional US model of market-oriented financing of enterprises has helped to create and develop numerous alternatives to bank lending.

In continental Europe, and in contrast to the US, firms' overdependence on bank loans has made them more vulnerable to banks' credit rationing and delayed the emergence of alternative market-based financing sources. New alternative instruments and related markets have however grown out of need and at fast-increasing rates, such as in the cases of crowdfunding, asset-based financing, and private equity, but their role in meeting SME demand is still modest. To some extent, their development might increasingly benefit from investors' quest for yields in an environment where overabundant liquidity has depressed return on traditional, safer assets.

In the Euro area, just since the end of 2014, SMEs’ financing difficulties have begun to recede across most member countries (see Figure 4), in a context of unprecedented liquidity creation by the ECB and the launching of the regulatory and financial framework for an actual European Banking Union and a Single Prudential Supervision Mechanism over banks and non-bank financial institutions.

Earlier, since the onset of the sovereign debt crisis in 2012, trends had developed in the direction of a fragmentation of the Euro financial markets along country lines, with the result that financing conditions have diverged between strong and weak economies within the same Euro area. This has severely constrained SMEs’ financing opportunities in a number of Euro countries, particularly with respect to gaining access to credit by banks, in spite of banks being together with governments the main recipients of the abundant liquidity created by the ECB (Figure 5). As banks are also the main provider of funds to SMEs, the latter have been the sector most negatively affected by banks’ flight to quality, higher collateral requirements, high interest rate spreads, preference for government securities purchases and a strategy to lower the risk profile of their asset portfolio.

*Figure 4: Loans to the private sector*



*Source: ECB economic Bulletin, Issue 1/2016*

Although some mitigation of these effects has occurred in the last few quarters, credit flows towards SMEs in Europe are not likely to resume rapidly at pre-crisis rates, because two additional factors are contributing to hamper them in weak euro countries in the near future. One is the relatively large pool of non-performing loans in banks’ balance sheets and the other is the increasing tightening of regulation and oversight over banks and other financial institutions, e.g. insurance companies. Nor does sluggish expected economic growth in 2016-17 seem to help reduce the impact of these factors. But it is in the entire EU that banks’ appetite for risk taking has been structurally lowered and is not going to rise in the coming years of the recession and sovereign debt crisis, but as a consequence of tighter rules than in the past – not only because of the negative legacy aimed at making banks more responsible for any loss stemming from credit default. The new rules on bank capitalization, liquidity and leverage ratios, together with bail-in provisions and “wills” in case of bank default, have all combined to reduce their return on capital and to raise their interest charge and ancillary conditions, and have made them more selective in granting loans.

Figure 5: European liquidity situation

| Assets – liquidity supply (averages; EUR billions)                |                |                |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Autonomous liquidity factors</b>                               | <b>1,142.5</b> | <b>(-51.3)</b> | <b>1,193.8</b> | <b>1,135.7</b> | <b>(-13.6)</b> | <b>1,149.3</b> | <b>(-33.9)</b> |
| Net foreign assets  | 623.2          | (-26.5)        | 649.8          | 619.1          | (-8.3)         | 627.4          | (-15.5)        |
| Net assets denominated in euro                                    | 519.3          | (-24.8)        | 544.1          | 516.7          | (-5.2)         | 521.9          | (-18.4)        |
| <b>Monetary policy instruments</b>                                |                |                |                |                |                |                |                |
| Open market operations  | 1,130.4        | (+193.2)       | 937.2          | 1,175.5        | (+90.2)        | 1,085.3        | (+87.8)        |
| Tender operations   | 533.4          | (+20.2)        | 513.2          | 532.3          | (-2.2)         | 534.5          | (+8.8)         |
| MROs  | 71.3           | (-18.4)        | 89.7           | 70.2           | (-2.2)         | 72.4           | (-10.1)        |
| Special-term refinancing operations                               | 0.0            | (+0.0)         | 0.0            | 0.0            | (+0.0)         | 0.0            | (+0.0)         |
| Three-month LTROs   | 73.6           | (-16.9)        | 90.5           | 69.2           | (-8.9)         | 78.1           | (-5.7)         |
| Three-year LTROs  | 0.0            | (+0.0)         | 0.0            | 0.0            | (+0.0)         | 0.0            | (+0.0)         |
| Targeted LTROs  | 388.5          | (+55.5)        | 333.0          | 393.0          | (+8.9)         | 384.1          | (+24.6)        |
| Outright portfolios   | 597.0          | (+173.0)       | 424.0          | 643.2          | (+92.4)        | 550.8          | (+79.0)        |
| First covered bond purchase programme                             | 22.2           | (-2.2)         | 24.4           | 21.9           | (-0.6)         | 22.5           | (-0.8)         |
| Second covered bond purchase programme                            | 10.5           | (-0.6)         | 11.1           | 10.4           | (-0.3)         | 10.7           | (-0.1)         |
| Third covered bond purchase programme                             | 114.9          | (+27.8)        | 87.1           | 122.3          | (+14.8)        | 107.6          | (+12.4)        |
| Securities Markets Programme                                      | 128.5          | (-8.2)         | 136.6          | 127.1          | (-2.7)         | 129.8          | (-4.8)         |
| Asset-backed securities purchase programme                        | 11.9           | (+4.4)         | 7.5            | 13.2           | (+2.5)         | 10.7           | (+1.9)         |
| Public sector purchase programme                                  | 308.9          | (+151.6)       | 157.4          | 348.3          | (+78.6)        | 269.6          | (+70.5)        |
| Marginal lending facility   | 0.4            | (+0.2)         | 0.2            | 0.1            | (-0.5)         | 0.6            | (+0.3)         |
| <b>Other liquidity-based information (averages; EUR billions)</b> |                |                |                |                |                |                |                |
| Aggregate liquidity needs   | 646.5          | (+38.4)        | 608.0          | 670.7          | (+48.5)        | 622.2          | (-3.4)         |
| Autonomous factors <sup>1)</sup>                                  | 533.5          | (+36.7)        | 496.8          | 557.5          | (+48.0)        | 509.5          | (-3.8)         |
| Excess liquidity  | 483.9          | (+154.7)       | 329.2          | 504.8          | (+41.6)        | 463.1          | (+91.3)        |

Source: ECB Economic Bulletin, Issue 8/2015 Box 1

The policy challenge is, therefore, to find ways and means to channel more of the liquidity, both current stocks and future flows, towards the enterprise sector, especially the SMEs and innovative firms. The answer doesn't lie exclusively with the ECB and the diversification of SME financing away from bank credit. The ECB has already made some of its credit facilities more targeted towards these firms through several rounds of targeted longer-term refinancing operations (TLTRO), but success has been limited, due to less than enthusiastic interest by banks in this lending and the possibility to replace other funding sources with TLTRO funds to meet other needs.

A more viable solution is a multipronged approach that combines:

- an SME drive toward better capital structures by tapping alternative sources (asset-based finance, leasing, factoring, bond markets, specialized equity markets, mezzanine finance, trade credit, B.A. and V.C.), together with better information on enterprise conditions;
- a fine-tuning of the new bank regulations by distinguishing types of firms and risk components, and allowing more time for their implementation if the euro economy does not return to solid growth;
- more coordination of financial regulations across Europe and with the rest of advanced economies in dealing with risk and to channel more savings into the real economy; disparities across countries in regulating and supervising financial markets and institutions limit breadth and scope of financing sources for SMEs (this is, for instance, the case for effective securitization of SME loans);
- an increasing role for public institutions in providing SMEs with credit guarantees, special-purpose financing facilities (both lending, equity and investment incentives), as well as tailored services and infrastructures.

This is not an impossible agenda, but an itinerary that requires perseverance and determination by all policymakers mindful of the risk of secular stagnation.

# – Chapter 6 –

## Opportunities and challenges for SMEs in 2016 An SME perspective

Tunç Uyanık

**Chief Executive World  
SME Forum**

Since September 2015, when the G20 leaders welcomed the World SME Forum (WSF) as the international organization which amplifies the voice of SMEs globally, we have been in intense dialogue with partners around the world to identify the most pressing priorities of the SME community. The feedback we are getting is that, in 2016, traditional challenges to SME growth have been intensifying due to heightened global economic volatility, increased political uncertainties, and severe trade reversals. No doubt these will adversely handicap SMEs; however, we believe policy makers have the opportunity to counter them and take SMEs to the next level.

The upside potential for SMEs continues to be stunted by several challenges. They include constraints in accessing markets, finance, managerial and entrepreneurial skills, and the digital economy and innovation ecosystems.

SMEs face higher obstacles than their larger counterparts when engaging in remote markets. They have less access to information and communication channels; and they face difficulties complying with labor, environmental, social, and international standards. Debt financing for SMEs remains constrained in most countries, with higher interest rates, shorter loan tenures, and tougher collateral requirements. And, alternative sources, such as equity finance, remain limited and volatile. SMEs are constrained by the lack of access to managerial skills and talent, and capacity building opportunities. In the digital field, SMEs have yet to fully seize the potential of technology and the services it can provide to improve productivity.

And, if these are not sufficient to completely debilitate the typical SME, business regulations often place them at a disadvantage. The fact of the matter is that obstacles to entry, high costs of compliance, the absence of a level playing field, and low transparency are hindering SMEs' potential across the board.

While 2016 does not seem to be bringing major improvements under any of those aspects, the situation is not as bleak as it may appear. Globally, policymakers have indeed turned their attention to SMEs as a potential recipe for inclusive growth; and digital technologies are providing SMEs the potential to compete in international markets at levels unseen before. What then are the opportunities that policymakers could reflect on to help place SMEs on a steep growth trajectory?

Could the environment for SMEs improve, perhaps as early as this year, through the auspices of the Chinese leadership of the G20? I believe the answer is yes on both scores. I see two specific opportunities at hand.

The first opportunity rests on leveraging the sharper focus on SMEs that has come of late. It's an opportunity not to be missed. SMEs have become an explicit focus for sovereigns as well as prominent international organizations such as the OECD, the World Bank Group, the International Trade Center and the WTO.

Furthermore, influential coordinating bodies such as BIAC and the B20 have established SME Taskforces. The B20 and G20 leaderships have also increased their efforts to concretely implement policy recommendations, through coordinating approaches and structures.

The creation of WSF is the fruit of one such effort: we are strengthening ties with all interested parties, and our work program is fully aligned with emerging B20 recommendations expected this year. For the first time, the world now has a structure that can be mandated to implement and report on progress on the SMEs development agenda, through each B20 and G20 annuals. This, by itself, is a significant achievement, which we can all applaud, and which we all should leverage.

Specifically, on accessing finance, the WSF is defining a framework for an assessment of impact of financial regulations on SME lending, and designing a capacity building program to improve availability of standardized information about SME performance. On access to markets, consistent with ongoing B20 discussions on the potential of eTrade, we are working to create a one-stop-shop online platform for SMEs. Called the “e-WSF”, this e-platform aims to increase SMEs’ access to skills, training, and information, improve access to Global Value Chains, and access to finance. In parallel, we are designing a hands-on technical assistance program for SMEs on certification and standards.

The second opportunity rests on infusing digital technologies into the DNA of SMEs. We know that technology is facilitating access to markets; e-Commerce now enables firms to link to an unprecedentedly large customer base, at significantly lower interaction costs. Digitization facilitates access to finance in unconventional ways: by improving credit information and analysis through online data sources such as sales and other performance indicators; through alternative finance such as crowdfunding and supply-chain finance; and fintech innovations targeted to help SMEs on payments. Technology is also facilitating access to skills, through Massive Open Online Courses (MOOCS), or free online learning modules, which are making learning and mentoring easier and more affordable than ever before for smaller companies. It is now also easier and cheaper to discover and access services and products from other SMEs and to outsource critical company functions e.g., legal, accounting and tax.

In essence, the opportunities to better utilize the enormous potential of SMEs to help the world economy to overcome many of its current challenges are already here. We just need to ensure that policy helps SMEs to help themselves. While there is a lot of work to be done to facilitate this, the fundamentals are already in place; they just need to be unlocked. And WSF exists to make sure that these doors to improve SMEs’ growth and impact are finally opened for implementation, starting in 2016.



## **SECTION 2**

### **Linking financial inclusion, financial regulation, and SMEs**



# – Chapter 7 –

## Opportunities and challenges for SMEs in 2016

### A financing perspective

Matthew Gamser<sup>30</sup>

Chief Executive  
SME Finance Forum

SMEs, particularly those involved in global supply chains, feel both strong tailwinds and strong headwinds in 2016. The tailwinds come from the rapid “digitization” of business and unprecedented investment in fintech that can turn this digitization into more affordable and scalable financing. The headwinds come from continued policy uncertainty and inconsistency, making it unclear, for banks in particular, how stable this new market opportunity might be.

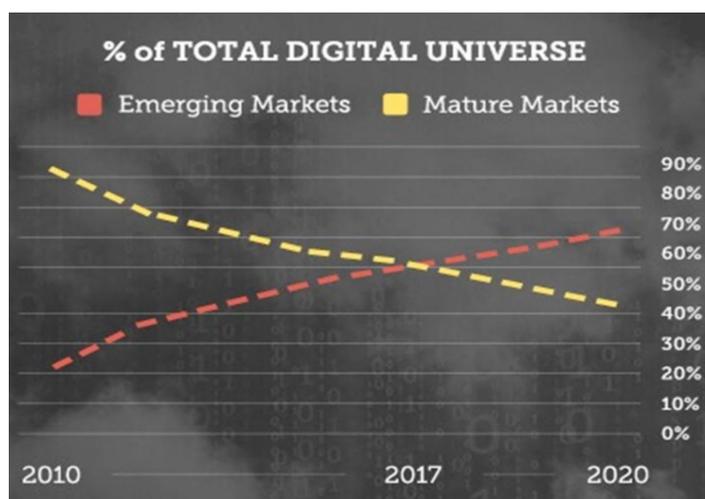
SMEs never fit in well with old-style, branch-based banking practices. Too expensive to acquire, too expensive to serve. SMEs want the custom-tailored, “high touch” banking experience, but they don’t bring enough business volume to support corporate banking practice. They need automation, but they don’t easily or affordably provide the key data to support automation (such as in the consumer finance market).

Thus only a small number of financial institutions could overcome obstacles to building a strong SME finance business, and did so through labor intensive approaches, but these institutions were small and their market penetration was limited.<sup>31</sup> Vast numbers of creditworthy SMEs have therefore gone un- or under-served because banks – particularly large banks – cannot easily obtain the information they require from SMEs.

### Headwinds and innovative SME financing

However, there are new tailwinds today that may surmount this information asymmetry barrier. SMEs are doing more business electronically. Technological innovation has made the infrastructure for electronic payments more affordable. Cards and POS<sup>32</sup> devices cost orders of magnitude less than 10-20 years ago, with more varieties available each day, requiring less power (many operating on rechargeable batteries) and less technical knowhow. The biggest game changer is the mobile phone, which is bringing a new, even lower cost option into the payments ecosystem.

*Figure 6: The rapid growth of the “digital universe”*



<sup>30</sup> Matthew Gamser is CEO of the SME Finance Forum, a G20 initiative managed by the International Finance Corporation.

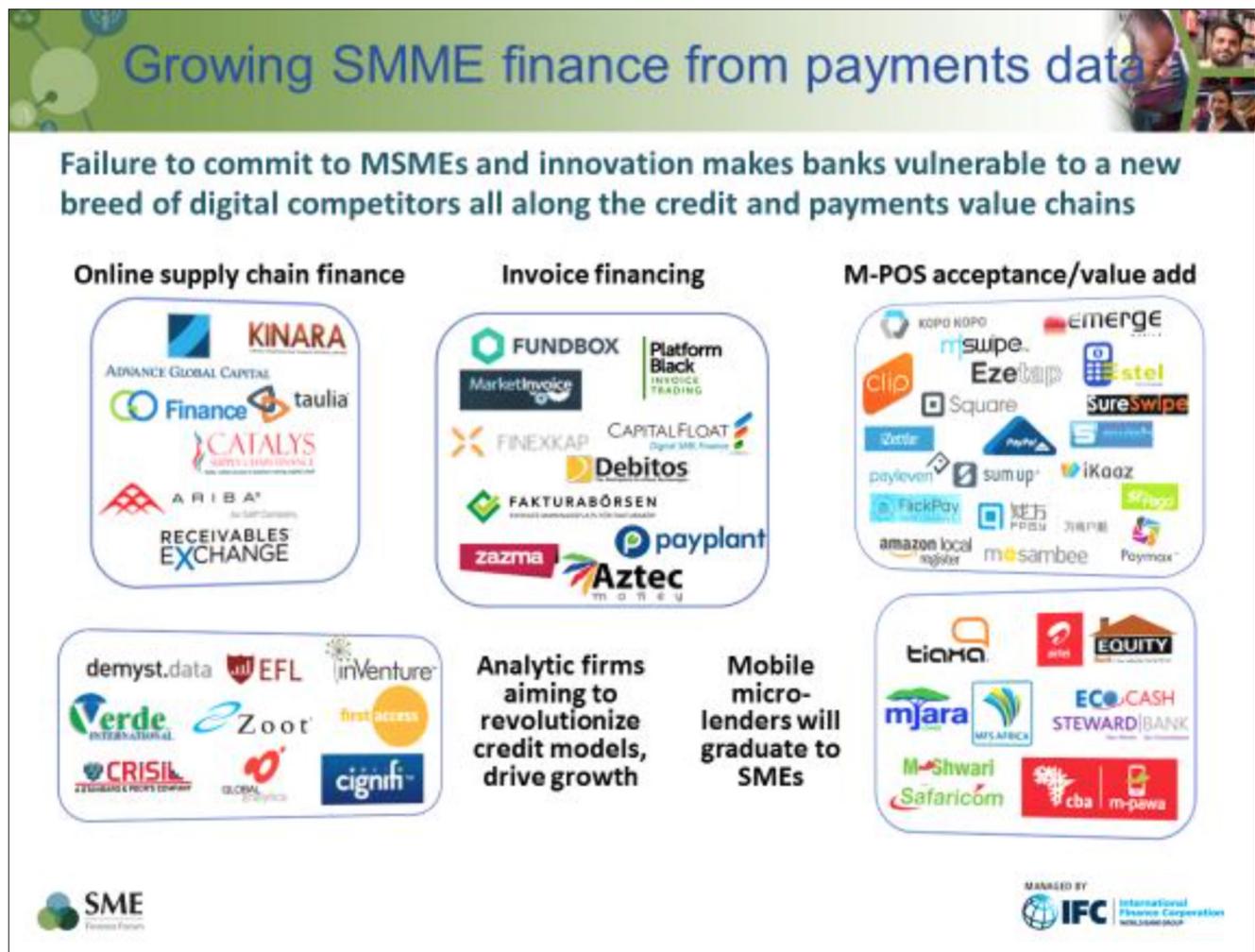
<sup>31</sup> Wells Fargo, from the early 1990s, being a notable exception to this – but because they moved early into the new, data-driven approach described later in this paper.

<sup>32</sup> POS is the Point of Sale (the time and place where a retail transaction is completed), and generally referred to the POS system technology that permits customers to pay by cards.

The results are a massive expansion of the electronic footprint of individuals and SMEs. Colleagues from IBM produced Figure 6 on the rapid growth of the “digital universe”, which is more than doubling every two years, and which is growing even faster in emerging markets than in developed countries. Critical transactional information might now become available to a banker without a bank having to take a traditional labor intensive approach to SME finance.

It’s worth noting that while only a small fraction of fintech focuses on SME finance, quite a significant chunk of this investment concerns data mining technologies which can be applied in SME finance. These technologies underpin many of the highest profile fintechs for investors, such as those specializing in developed country consumer credit, ID/security tech, and cross-border payments (see for example Figure 7).

Figure 7: Fintech applications for SME finance



Wells Fargo, one of the world’s largest banks (and an SME Finance Forum member), has been demonstrating the potential of such a data-driven approach for over 25 years, having begun by learning how to mine their own internal transactional data as they grew from a regional into a national institution. Perhaps most exciting, we’re seeing banks partnering with fintech firms to make this same new data resource into a tool for helping their SME clients run their businesses better, such as improving financial management, marketing, customer relations, and other critical areas.

The G20’s commitment to bringing credit information, movable assets, and insolvency regimes up to globally recognized best practice standards in both G20 and non G20 countries will provide an additional boost.

The Joint Action Plan on SME Financing, agreed in November 2015 by the G20 leadership, will both increase data availability and shore up the legal underpinning for movables-based financing that is of great importance to the generally fixed asset-poor SME sector.<sup>33</sup>

Global supply chains make ideal vectors for channeling this technological tailwind into big financial gain for financiers and SMEs alike. Digitizing these chains lowers transaction costs while it increases key information availability and transparency. SMEs involved in these chains historically grow faster and create more jobs than their peers. Better financial markets infrastructure, in the three areas cited in Figure 7, further increases information and reduces risks for financiers of these chains. Will this lead to a new era of unprecedented growth for the financial world? Unfortunately this looks unlikely, because the countervailing headwinds are strong and unpredictable.

## What are the headwinds?

Despite the superior value of real-time electronic transactional data in predicting credit behavior compared to historical sources (accounts, business plans, government credit bureau data), and the potential of new electronic value chain payments platforms to reduce financing risks, banks today likely will see little or no recognition of investments they make in acquiring this knowhow in their supervisors' risk weighting of any new SME loan assets. While the Basel Committee, in its latest consultative draft, has backed away from some of the more draconian measures which were being considered in guidance for lending to firms without audited accounts, fixed assets or strong formal financial statements, it has not embraced alternative risk management options, and the matter remains unsettled. Despite the new commitment of the G20, few supervisory regimes today recognize movable assets in determining lending reserve requirements, and change in this area will take time.<sup>34</sup>

Moreover, the legal underpinnings of handling movables transactions remain uncertain in many countries. In a recent SME Finance Forum webinar on financing cross-border supply chains, a representative from Banco Santander pointed out that even its own auditors had been known to change their advice about how to treat the underlying pledges in such trade transactions, either because of a change in auditing firm, or even due to a change of personnel within their established auditors.<sup>35</sup> This uncertainty in accounting treatment can make bankers balk at growing this business.

Of course, non-bank alternative lenders for the most part operate outside risk-weighted capital concerns. Many regulated banks are exploring partnerships with such "alternatives" to find more capital-efficient ways to explore the SME market. Two areas of regulatory uncertainty blow in the face of such innovative partnerships. The first is how and who will regulate the alternative lenders. The second is how bank capital invested in such partnerships will be treated. Hopefully both areas will evolve in congenial ways for these new developments.

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<sup>33</sup> G20 Action Plan on SME Financing. Note that last year we wrote about the need for progress in these areas, and it's most significant that the G20 has chosen to act to commit its members to moving their regimes to internationally recognized best practice as soon as possible, and to supporting non-G20 countries that wish to reform in these areas. For more detail, see G20/Global Partnership for Financial Inclusion, *Joint Action Plan on SME Financing*, Antalya, Turkey: October 2015. <http://www.gpfi.org/sites/default/files/documents/01-G20%20Joint%20Action%20Plan%20on%20SME%20Financing.pdf>

<sup>34</sup> BIAC-B20 Turkey (2015) "Business Access to Global Value Chains and SME Financing".

<sup>35</sup> Reference website for tape of the webinar, and title.

Evolving consumer and privacy protection regulation threatens many of the gains promised by alternative data technology.<sup>36</sup> This headwind will remain until more balanced regulation containing informed consent regimes, balancing privacy and risk management concerns for data sharing, are agreed across borders.

Related to this, evolving “know your customer” compliance regimes, unless moderated by some risk-based, graduated requirements, discourage banks from supporting longer supply chains – those supply chains likely to involve more SMEs and more small farmers.<sup>37</sup>

A final headwind lies in the underlying payments system for cross-border transactions. Despite much tinkering around the edges, the system’s core still remains based on early 1970s messaging protocols. Its lack of transparency facilitates exploitative behavior by the larger players in the system, such as systemic late payment by larger entities (firm and government debtors). Alternative technologies exist to support direct, more transparent, more cost-effective and more scale-neutral global payments systems.

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<sup>36</sup> Consider for example that laws passed in Europe, in reaction to relatively well-served, well-off individuals concerned about their ability to control their Facebook records, can affect costs of using valuable new data to finance Kenyan farmers in supply chains for European and North American market. These consequences usually are not considered.

<sup>37</sup> The recent decision by Barclays Bank to withdraw from Africa after more than 100 years operations on the continent should sound a warning bell in this regard, as compliance costs were cited as a key factor in their decision. See CEO Jes Staley comments in <http://www.ft.com/intl/cms/s/0/01d64502-dca4-11e5-827d-4dfbe0213e07.html#axzz43v08Gmdp>,

# – Chapter 8 –

## Improving the financial sector policymaking process

Kent D Andrews

Chair of the BIAC Finance Task Force

### From emergency response to long-term rehabilitation

The financial crisis that shook the foundations of our economies eight years ago has taught us all valuable lessons. Most crucially, it revealed that the global financial system was not as stable as previously thought. To mitigate the risk of a repeat crisis of this type in future, the internationally agreed Basel III reforms in the areas of capital, liquidity, and leverage were formulated thanks to urgent, decisive and necessary G20 action. As countries continued to grapple with the severe aftermath of the crisis, myriad other national and regional measures were added to the Basel III reform program – in some cases building upon it, while in other cases diverging from it.

We have now built a regulatory architecture largely capable of avoiding a repeat of the last crisis. However, we are only just beginning to consider the consequences of this complex regulatory landscape on growth, investment, and jobs. Far too little is known about the interactions between the measures taken to bolster the financial sector and the foundational drivers of our collective economies. And yet the stakes are perilously high. Let us not forget that we are witnessing the slowest and deepest post-crisis business investment recovery in the past forty years. Global trade growth is running at half-speed, productivity is decelerating, and high levels of unemployment continue to challenge a number of countries. Moreover, public trust in the leading drivers of growth – i.e. open, innovative, and competitive markets – has declined.

As a former regulator, I know that there can be a myopia that most of us suffer from when we experience a crisis in the financial sector. Rarely do we take time to ponder the longer term implications of the actions we take to resolve whatever crisis we face. Understanding the wider impacts of financial regulation on economic growth and investment must now become the top priority of our governments and regulators. But the truth is that the individual and cumulative consequences of the various regulations introduced since the 2008-09 crisis are notoriously difficult to measure and thus remain poorly understood.

Eight years since the onset of the crisis, the continued lackluster growth in the world economy should serve as a warning for regulators and governments to ensure that their financial systems are capable of delivering not only stability, but also economic growth and acceptable returns on investment. They would be wise to begin this task by considering the ability of their countries' SMEs to access the financial resources they require to be successful in their pursuits.

### Financial regulation and SME-led economic growth

There are numerous statistics that can be quoted which point to the importance of SMEs in various countries. For example, in the United States the SME sector employs roughly half of the entire private sector workforce; as goes the SME sector, so goes the American economy. This is true for many countries in the G20. It is no surprise to see that so many countries are struggling to grow their economies, since their SME sectors which were hit disproportionately hard in the financial crisis have not been able to return to their pre-crisis activity levels. But what is stopping them from reaching their full potential? It's hard to know for sure. SMEs will tell you that there is a lack of funding available and banks will tell you that there is a shortage of qualified borrowers. The answer is that both are likely true.

It is estimated that over half of the small businesses in the United States looking for funding are seeking less than \$100,000.<sup>38</sup> Since a stand-alone business loan of this amount is not profitable to administer as a small business loan, they are often processed as personal loans with homes pledged as collateral. The problem is that mortgage lending, and especially second mortgage lending, is now subject to far greater scrutiny than in years gone by. Many regulators have vigorously tightened lending criteria (for good reason) in response to the crisis, especially for those people who are labelled as "business for self". Some of the regulatory actions which were meant to tamp down enthusiastic lending in the retail market have inadvertently also reduced funding available to SMEs. Even where regulators' formal published guidance does not appear to be overly restrictive, the lending parameters imposed informally by their individual examiners sometimes reflect extreme risk aversion that goes beyond the desired risk appetite of policymakers who wrote the supervisory guidance.

Paul Krugman once said in a discussion on federal deficits: "*virtue becomes vice and prudence becomes folly. Saving hurts the economy – it even hurts investment, thanks to the paradox of thrift. Fixating on debt and deficits deepens the depression.*"<sup>39</sup> When viewed through the lens of banking regulation, over-tightening of lending standards can actually create a macroprudential threat which is worse than the microprudential risk it is trying to subdue.

In an IMF Speech November 8, 2013, Larry Summers pointed out that "*one has to be concerned about a policy agenda that is doing less with monetary policy than has been done before, doing less with fiscal policy than has been done before, and taking steps whose basic purpose is to cause there to be less lending, borrowing, and inflated asset prices than there were before.*"<sup>40</sup>

## The need to improve regulatory policymaking

This all brings me back to the observation that I made at the onset of this chapter, which is that there is still plenty to learn from the crisis. First and foremost, the individual and cumulative impacts of financial regulatory measures across our economies need to be better understood. This is a critical part of the evidence base required for deciding whether we have broadly effective regulatory policymaking and for putting our economies back on track to sustainable growth. It is encouraging however to hear those who were the architects of the reform, begin to address the issue. In a recent speech at the Atlanta Federal Reserve, William Dudley noted that "*Capital and liquidity requirements for the largest securities dealers - which have been raised significantly since the financial crisis - might have adversely impacted market liquidity.*"<sup>41</sup>

The OECD, in collaboration with the FSB and other global policymaking bodies, should be encouraged by the G20 to undertake independent examination of the interactions between financial regulations, economic growth, and return on investment.

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<sup>38</sup> Federal Reserve (New York) "Small Business Credit Survey", Fall 2013

<sup>39</sup> New York Times, "The Conscience of a Liberal", November 16, 2013

<sup>40</sup> IMF Research Conference Panel Discussion, November 8, 2013

<sup>41</sup> Federal Reserve (Atlanta) "Market and Funding Liquidity: An Overview", Speech 21st Annual Financial Markets Conference May 1, 2016

Such evidence will help to inform and guide revisions to the crisis-era policy actions which are required for jobs growth and prosperity. Going back to Krugman and Summers, there has been more discussion recently about deficit spending by governments. I would caution that instead of blindly funneling money into projects with the most political payoff and risking further inflation of existing asset bubbles, a sound suite of financial sector policies should encourage long term prosperity and innovation by putting money into programs that would lubricate funding channels for financial growth engines like SMEs. This, along with a regulatory system that incentivizes an appropriate degree of risk-taking by banks and other financial institutions in funding SMEs will have a stimulating effect in areas which will increase both social and economic value. By doing so, governments will be taking the first steps forward in actively balancing growth and investment goals with the public desire for a stable financial system.

# – Chapter 9 –

## Cross-border financial regulatory coherence: Removing impediments to growth

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### Why renewed focus on financial regulatory coherence is needed

The OECD Interim Economic Outlook in February of this year reported that the world economy is likely to expand no faster in 2016 than it did in 2015. Such a pace would be the slowest rate in five years. Trade and investment are weak, and sluggish demand is leading to low inflation and inadequate wage and employment growth. The G20 Finance Ministers and Central Bank Governors have stated that the global recovery remains uneven and falls short of achieving strong, sustainable and balanced growth. Eight years following the global financial crisis, and despite historic efforts by governments (both individually and collectively) to stimulate economic growth, these conditions persist.

One economic constraint that is fully within the grasp of governments to mitigate, however, is efforts towards improving cross-border regulatory coherence – particularly as it relates to financial services. The financial services industry plays a key role in fostering economic growth and development, providing the credit and payments systems that support trade, the means by which capital is raised and deployed for the investments and business transactions and provides the private sector with the ability to create more jobs and pay wages. Divergent or inconsistent financial regulations, however, prevent the proper functioning of this industry, fragmenting markets, impairing liquidity, reducing the ability of end users to manage risks and, ultimately, reducing economic growth.

The G20 has prioritized financial regulatory consistency since the Pittsburgh Leaders' Summit in 2009, where governments pledged to implement “...*global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism and regulatory arbitrage*”.<sup>42</sup> Seven years after this pledge, however, the G20 commitments have not fostered the development of harmonized financial regulations as hoped. New financial regulations have been (and continue to be) finalized and implemented at national and regional levels that often fail to take into account the work of other regimes. As a result, the core G20 financial regulatory program, when combined with diverging national or regional measures, are collectively and unintentionally bearing negative impacts on our economies and societies.

Such a lack of coordination was acknowledged by a November 2015 report to the G20 Leaders published by the Financial Stability Board (FSB) on “*Implementation and effects of the G20 financial regulatory reforms*”. This report highlighted the good progress made towards “*increase[ing] the resilience of the global financial system while preserving its open and integrated structure*”. The report, however, also highlighted certain challenges, emphasizing that “*further cross-border cooperation is needed to overcome obstacles to effective implementation of reforms*”. Cooperation amongst regulators in developing their

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<sup>42</sup> G20 (2009) “Leaders’ Statement: The Pittsburgh Summit, September 24-25 2009”, paragraph 12, available online at: <https://www.oecd.org/g20/summits/pittsburgh/G20-Pittsburgh-Leaders-Declaration.pdf>

respective regimes is necessary, both in regards to consistency in implementation timing and the substantive content of rulemaking. This cooperation allows market participants to effectively implement systems and procedures to comply with new regulatory requirements, without facing unnecessary burdens or obstacles which impede the proper functioning of their businesses, and the financial markets at large. Without cooperation, conversely, financial market participants have to contend with different, and at times conflicting or inconsistent regulations across jurisdictions, increasing financial and reputational risk from unintended non-compliance.

Without proper regulatory coordination and cooperation, there are significant risks posed by the proliferation of inconsistent, duplicative or conflicting regulations. Unnecessary divergences and conflicts serve to hinder global economic growth, increasing opportunities for arbitrage and creating large scale market instability. These divergences further serve to fragment markets across jurisdictional lines, hampering global value chains and creating situations where business models are more difficult to monitor and supervise – resulting in an increase, rather than mitigation, of systemic risks. Such outcomes are inapposite to the goals envisioned by the G20. There is thus an urgent need to foster the development and implementation of financial regulations harmonized across different jurisdictions and markets, encouraging deference to competent national authorities and limiting the extraterritorial reach of domestic measures as appropriate.

## Building coordination through consultation

Greater regulatory consistency would allow financial institutions to operate more efficiently, without the unnecessary, and detrimental, impediments described above. Consistency, moreover, would limit instances of arbitrage, ensuring a competitive, level playing field for financial market participants, regardless of their geographic location.

Well aware of the importance of consistency and regulatory coordination, the FSB and the Basel Committee on Banking Supervision (BCBS) have enhanced collaboration with member and non-member supervisors through standing committees on regulatory and supervisory coordination and standards implementation. However, such efforts address only the supervision of relevant financial institutions, not the coordinated development and implementation of harmonized regulations.

To succeed, such a coordinating mechanism would need to be based on clearly defined operating principles. It should be:

- \* **Transparent** – To maximize its effectiveness, a mechanism would have to be clearly understood by policymakers and industry. Policymakers would need to be open and forthcoming as to their domestic initiatives. It would need to establish well-defined timetables for the coordination of regulations and provide for a consistent means of consultation and dialogue with market participants and industry bodies, with reasonable timelines for market participants to respond to regulatory proposals.
- \* **Timely** – Identifying cross-border issues early in the regulatory drafting process would be an important advance compared with the existing ad-hoc frameworks where international dialogues occur too late to improve outcomes.
- \* **Evidence-based** – Understanding the domestic and cross-border consequences of proposed regulatory actions should be paramount in evaluating options and the FSB and other bodies should encourage analysis of both.

- \* **Aimed towards conflict mitigation** – While important and useful dialogues do exist between regulators, at present there are no processes in cross-border financial regulation to systematically manage divergences in well-understood ways. The absence of such a mechanism potentially delays and even prevents countries from moving towards mutually satisfactory outcomes.
- \* **Outcomes-based** – G20 leaders have recognized that deference to, or mutual recognition, of other regimes is an important component of coordinated regulation across borders. This shared principle will help motivate dialogue that can mitigate the risk of extraterritoriality and duplicative rules. Clear, detailed standards for comparability assessments, as well as mechanisms for the ongoing assessment of regimes as rulemaking and implementation progress, will be necessary. Such assessment standards are needed to avoid the risk of inconsistent determinations (e.g., a positive determination in one jurisdiction, and a negative or qualified determination in another).

Several international bodies have attempted to address cross-border regulatory conflicts, including the International Organization of Securities Commissions (IOSCO). In other cases, bilateral dialogue has been regularized, but with an after-the-fact perspective that often addresses conflicts and unintended consequences rather than proactively establishing a platform for prospective regulatory planning and implementation. It is clear that cross-border financial regulatory consultative efforts to date have been ad hoc and have not yet provided the continuous and institutionalized dialogue needed.

The international financial community, represented by such groups as the Global Financial Markets Association (GFMA) and the Institute of International Finance (IIF), recognize that proper cross-border coordination and consistency are essential and that a formal, well-defined consultative process, guided by clear and well-developed principles such as those noted above, would go a long way towards addressing regulatory fragmentation. Such a process would further help alleviate the need for ad-hoc consultations, and would be a practical acknowledgment that the cross-border impact of financial regulation requires a collaborative and forward-looking approach.

## Next steps

The B20 Financing Growth Task Force (FGTF) recognized in 2015 that a permanent, well-defined consultative process, guided by principles such as those noted above, is required. In order to help governments employ such a process, the development of a model cross-border Memoranda of Understanding (MoU) amongst financial regulators in different jurisdictions would be a useful tool. Such MoUs could establish a process for consultations while drafting and implementing new regulatory measures that would take into account the effects on real sector funding, economic growth and implementation considerations for emerging, as well as advanced, economies. The underlying objective should be to maximize recognition of regulatory regimes.

The establishment of mechanisms that foster regulatory recognition is imperative. Regulators should seek to make decisions whether to recognize another regime based on whether the regulation achieves comparable regulatory outcomes, not on whether they have identical rules. This approach would serve to increase the credibility, efficiency and effectiveness of financial regulatory reform. As a first step toward fulfilling G20 mandates and B20 recommendations aimed at supporting financial stability and economic growth, the G20 should request the FSB, in consultation with relevant government and private sector stakeholders, to develop a principles-based model MoU for cross-border financial regulatory consultations.

# – Chapter 10 –

## How European securitization could assist SME financing

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### Introduction

Reliant on banks for most of their financing, European SMEs have been particularly hard hit by the crisis. The combination of weak sovereign credit standing and depressed real economic activity has left lenders in Europe scrambling to rebuild capital ratios and reduce the size of balance sheets.

Furthermore, new liquidity rules for banks and moral suasion from governments have led many European banks to substitute investments in their national governments' debt for corporate lending. SMEs have been an obvious place for banks to focus in their efforts to rein back lending and boost the liquidity of their assets.

In consequence, access to finance has been a significant challenge for European SMEs. This is especially true in the periphery countries where banks have been most under pressure to rebuild capital levels<sup>43</sup> and to boost their government bond holdings. Shortages in supply of loans to SMEs has been reflected by high SME lending spreads and rejection rates for loan applications from SMEs particularly in periphery countries.<sup>44</sup>

### Securitization as a safety valve

A possible safety valve for the pressures imposed on European banks might be securitization. Securitization permits banks to originate loans while retaining only a portion of the economic risk. Before the crisis, SME-backed securitizations were, measured by value, second only to residential mortgage backed deals within the European securitization market.

In effect, securitization offers banks the possibility of shifting capital intensive assets such as SME loans off balance sheets. For the market to function well, banks must retain enough of the securitization exposure to ensure that they have an incentive to manage the pool appropriately (i.e., leaving them with 'skin in the game'). But, this still, typically, gives them scope to sell a significant part of their exposure to outside investors and, hence, if the capital rules so allow, to reduce their regulatory capital.

### Obstacles to the revival of SME securitization

Given their potential role as a safety valve, why has the SME-backed securitization in Europe been so moribund in recent years? A recent EBA Discussion Paper (see EBA, 2014) on Simple, Standard and Transparent Securitizations (SSTS) lists impediments to the general revival of the market:

1. The post-crisis stigma attached to the whole securitization market by investors;
2. The impact of the macro-economic environment that has unfolded, in some jurisdictions, since the financial crisis;
3. The role of alternative funding instruments available to institutions in the EU, particularly the availability of central bank funding as a response to the financial crisis;

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<sup>43</sup> See European Central Bank (2014).

<sup>44</sup> See ECB (2015).

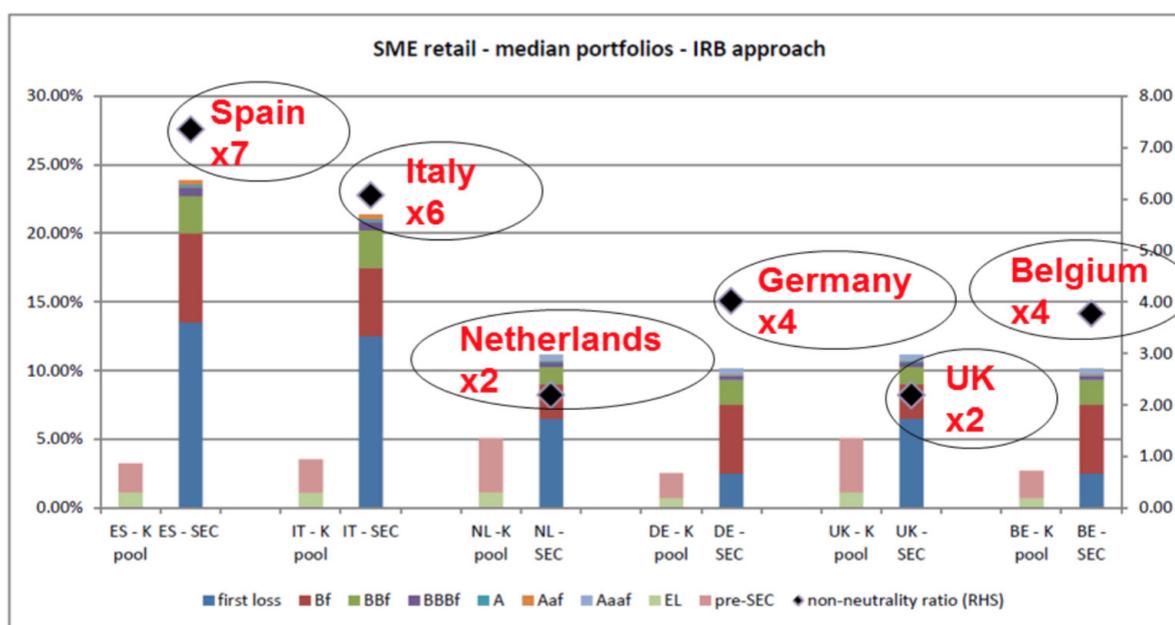
4. The tightening of the main credit rating agencies' rating methodologies and rating policies, affecting the securitization asset class following the negative experience of securitization ratings during the crisis;
5. The lack of a sufficient investor base;
6. The potential regulatory uncertainty for issuers and investors from the numerous not yet finalized regulatory initiatives, both at the EU and global level and, a direct or indirect impact on incentives to securities and/or invest in securitizations.

The post-crisis stigma has undoubtedly discouraged investor interest, dampening the demand for investment in securitizations. Also, the pure funding motive for banks to issue placed (rather than retained) securitizations has been reduced by the wide access to central bank funding that European banks have enjoyed, particularly following early 2012. However, the primary constraint on European banks since the crisis has not been one of scarce funding but instead the pressing need they have faced to economize on regulatory capital so as to meet Basel III capital requirements.

In this context, impediments 4 and 6 above have proved to be the dominant negative influences on a revival in SME securitization. 6 reflects a view common among senior European regulators that the review of securitization regulation that has occurred post the crisis has been too aggressively conservative, at least as far as high quality sectors of the European market are concerned. Impediment 5 has been a consequence of 6 and possibly 1. On impediment 2, the macroeconomic environment might even encourage securitization in the sense that, other things being equal, it would encourage banks to shift loans off balance sheets.

The significance of 4 is that securitization capital within Europe is dominated by ratings-based approaches. Since the crisis, ratings agencies, struggling to restore their reputation, have adopted sudden and drastic changes in methodology that have imparted an extreme form of procyclicality to securitization ratings.

Figure 8: Non-neutrality of Basel II ratings-based securitization capital<sup>45</sup> (source EBA, 2014)



<sup>45</sup>The figure shows capital for pool assets and for securitization tranches of hypothetical SME retail securitisation transactions using idealised tranche structure and associated ratings supplied by ratings agencies. The capital of securitisations is calculated using the Basel II Ratings Based Approach. For each country, the left hand bar shows the sum of Expected Loss (EL) and Unexpected Loss (UL) capital for the securitisation pool assets. The right hand bar shows the total capital (combining EL and UL) for tranches having different ratings. The ratio of the height of a right hand bar to that of a left hand bar equals the ratio of capital for a bank that holds all the tranches of a deal to that of a bank that hold the pool assets. This ratio may be regarded as a measure of the non-neutrality of the securitisation capital framework.

Furthermore, the operation by ratings agencies of caps and triggers in their ratings evaluations to allow for transfer, convertibility and counterparty risk have increased conservatism, hampering banks located in unfavored countries from securitizing.

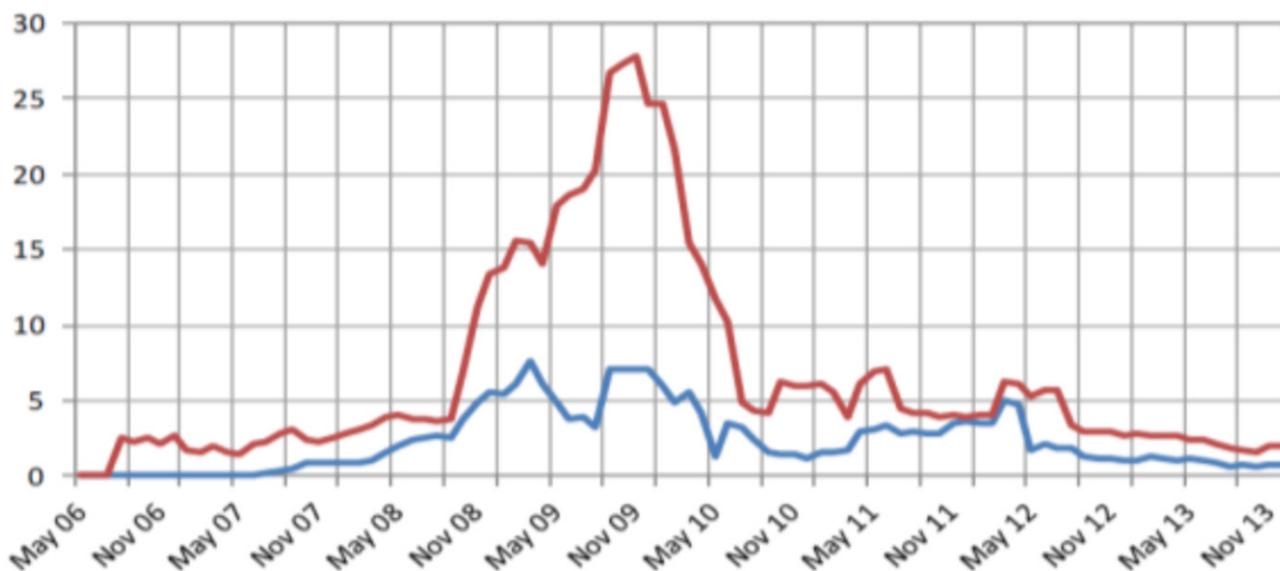
EBA (2014) presents striking evidence on the effects of the current capital rules on incentives to invest in securitization. Figure 8 reproduces a graphic from EBA (2014) in which a comparison is made between the total capital that a bank must hold if it owns a pool of SME loans (in this, Expected Loss is added to the pure Unexpected Loss pool capital) with the capital that banks must hold if they own all the tranches of a securitization secured on those very same loans. The ratio of the two quantities may be regarded as the degree of non-neutrality in the capital approach.

As one may observe from Figure 8, the current ratings-based capital rules are extremely non-neutral. The degree of non-neutrality varies across countries. For Spain and Italy, total securitization capital equals 7 and 6 times pool capital. For the Netherlands and UK, the ratio is 2, while for Germany and Belgium the ratio is 4.

What solutions are available that might rectify the degree of non-neutrality for European securitization sectors that performed well during the recent crisis, such as SME-backed deals? In spring of 2014, the Bank of England and ECB issued two discussion papers suggesting that a category of High Quality Securitization be carved out. Implicitly, the idea was that securitizations in this category receive less conservative regulatory treatment.

We support the use in regulations of a distinction between High Quality Securitization and the rest of the market. Figure 9 shows the average annualized return volatility of High Quality and Other segments of the European securitization market from mid-2006 onwards. All the tranches involved are AAA-rated. Qualitative criteria are used to differentiate the two categories. Obvious from the figure is the fact that ratings are insufficient as a means of discriminating between risky and less risky securitization securities.

*Figure 9: Annualized return volatility for European securitization tranches<sup>46</sup>*



<sup>46</sup> Note: Source Perraudin (2014). The paper shows average, annualised return volatilities for a large dataset of AAA-rated, European securitisation tranches, differentiated between High Quality Securitisations, satisfying a set of qualitative criteria. These include ruling out tranches that involve refinancing risk and those issued by lenders following an originate-to-distribute business model. (For more details, see Perraudin (2014).)

In the light of Figure 9, it makes sense to investigate different ways of favoring High Quality from Other securitizations in regulatory rules. Ideally, this should be done other than by simply modifying but still retaining ratings-based approaches to determining regulatory capital. For reasons already described above, agency ratings represent an unsatisfactory basis for calculating regulatory capital.

Practical approaches for differentiating High Quality Securitizations have been proposed in Duponcheele et al (2014). That paper suggested simple changes in the Basel rules set out in BCBS 303 (see BCBS (2014)) that would be suitable for High Quality Securitizations. Those changes involve modifications in parameters used within the Simplified Supervisory Formula Approach which is the formula used as the building block of the capital formulae within BCBS 303.

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# – Chapter 11 –

## Supporting economic growth and financial inclusion

### *The role played by long-term investments in spurring international economic growth and ensuring financial stability*

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In the last years, especially in Europe, the role of “public” financial Institution, such as the Italian Cassa Depositi e Prestiti (CDP), the French Caisse des Dépôts et Consignations (CDC) and the German Kreditanstalt für Wiederaufbau (KfW), has been increasing and changing in response to the evolution of the global scenario.

In fact, if during the first phase of the financial crisis these institutions have played a crucial role in contrasting credit crunch providing liquidity, especially for SMEs and for infrastructure projects, now they are facing a new challenge. In a period with an abundant liquidity supply, these institutions have been asked to support economic activity by playing a promotional role in the new European Investment Strategic Plan (also known as the Juncker Plan). The European Commission has identified these institutions as National Promotional Banks (NPBs) and Institutions (NPIs) in order to strengthen and widen their traditional mission in supporting national economic growth, thereby giving them new responsibilities, a new operating framework, and new resources.

Traditionally, thanks to their direct (or indirect) public mandate (heterogeneous among countries and institutions), these actors have acted to address market failures, especially those which generate sub-optimal levels of investment, such as in the fields of innovation, R&D, infrastructure, environment and SMEs.

In this respect, it is important to note that – through their public mission – NPBs operate as private actors, and in complementary ways to other private market operators, rather than being in competition with them. This is also to guarantee an adequate remuneration for their funding (that in most of the cases comes from private savers and institutions and not from public resources) and a more efficient operating standard. As a consequence, the risk of crowding-out effects typically associated with the traditional government intervention in the economy is minimized.

More generally, these institutions can be identified as Long Term Investors (LTIs). The concept of “long term” is not only limited to the duration but also refers to a different perspective in which both the nature of the investment and the standing of the investor contribute to build sound projects and to produce systemic externalities. More specifically, as underlined by the economic literature, LTIs are characterized by a set of criteria:

- i. they provide a “productive capital” supporting smart, sustainable and inclusive economic growth;
- ii. they provide “patient capital” favoring the reduction of speculative behaviors by searching rates of return on investment which are stable in time and therefore promoting a higher financial stability in the system;
- iii. they represent an “engaged capital” by focusing on longer-term aspects such as environmental, social and innovative issues.

In this respect, NPIs have been focusing in particular in infrastructure and SMEs.

With regard to infrastructure, there is plenty of evidence in the economic literature showing positive multipliers and increasing externalities for infrastructure investment. The IMF, in its World Economic Outlook 2014, has estimated positive returns in terms of GDP growth and public finance consolidation. Therefore, it has strongly recommend policymakers, especially in advanced economies, to re-launch infrastructure investment in order to achieve a robust recovery, improving the levels of sustainability and stability of their economic systems.

At present, the main issue of financing infrastructure is not to find resources on capital markets but more importantly to identify a pipeline of bankable projects. In this scenario, NPIs are gaining momentum. They can have a key role in financing infrastructure by not only being an investor, but also acting as a promoter of projects, new forms of cooperation, and financial instruments. The coexistence of these two natures inherent to NPIs explains the meaning of “promotional activity” which characterizes these institutions. Especially in Europe, as noted before, the Juncker Plan has clearly identified NPIs as those actors able to encourage private investors’ participation, to promote the dialogue among stakeholders, and to identify new strategies with the final aim to fill market failures and sustain growth and employment.

With reference to financial instruments, as stressed by the D20 Statement in 2015, there is still significant room to strengthen the public-private partnerships (PPP) market, which today represents only 10% of infrastructure financing in Europe. This is also because, due to binding budget constraints, the public sector contribution to infrastructure investment will reduce in the coming years.

Regarding SMEs, due to the difficulties still existing for the firms – above all the SMEs – to access credit markets, our economies (especially the European Union) will benefit greatly from the introduction/ implementation of tools for credit enhancement. It is important for enterprises to increasingly diversify financial sources and directly access capital markets, in terms of both equity and debt. Particularly, in the European periphery the banking system is still affected by a dramatic process of deleveraging and the majority of enterprises are excessively relying on bank loans. These sources of financing have become more costly and risky over time, also in terms of capital absorption, because of the increase in the ratio of non-performing loans (NPLs) over banks’ total assets. In some countries, the asset-backed securities (ABS) market is still impaired and needs to be reinforced, so as to remove the existing barriers for firms to access alternative channels of funding. In light of these issues, instruments which will ease and enhance the provision of new credits to the firms (e.g. ABS purchases, mini-bonds, guarantee schemes) will be particularly important for the European economy. Long-term investors, such as CDP in Italy, can play a crucial role in developing, promoting and sustaining these initiatives with the ultimate objective to strengthen SMEs’ financial structure and restore stability in the banking sector.

At a policy level, it is necessary to harmonize the system of financial tools for enterprises and to look to new instruments, taking advantage of the opportunities both on the debt and equity sides. In particular, especially in Europe, it is important to create common market standards and best practices for the European private placement market for corporate debt. In addition, it is necessary to involve institutional investors in SME financing, developing a business model based on a colending approach where banks and non-banks lend alongside each other. With regard to equity, it is fundamental to develop an integrated private-equity and venture capital market. To this objective, it would be important to promote cross-border venture capital investments and create incentives for institutional investors.

Facing these new challenges, CDP is now ready for a change of pace to play a more proactive role. CDP's mission remains unchanged. CDP sustains the Italian economy by supporting the main drivers of growth: public administration and infrastructure, exports and internationalization, enterprises, and real estate. With the new business plan 2016-2020, CDP is going to provide €160 billion of new resources to stimulate the development of the Italian economy according to standards of sustainability and with a long-term view. Thanks to its designation as a NPI assigned by the Italian Government and the European Union, CDP will be able to activate more than €100 billion of additional national and foreign private and public resources. The role is not only to catalyze financial resources, but also to become a key player during this new phase of industrial policy at both the national and European levels, contributing to overcoming technological challenges and encouraging the modernization of the Italian economic system.



## **SECTION 3**

**Unlocking global value chains  
for enhanced productivity and  
sustainability**



# – Chapter 12 –

## The productivity puzzle? What business really thinks

Confederation of British Industry

### Major economies have returned to growth

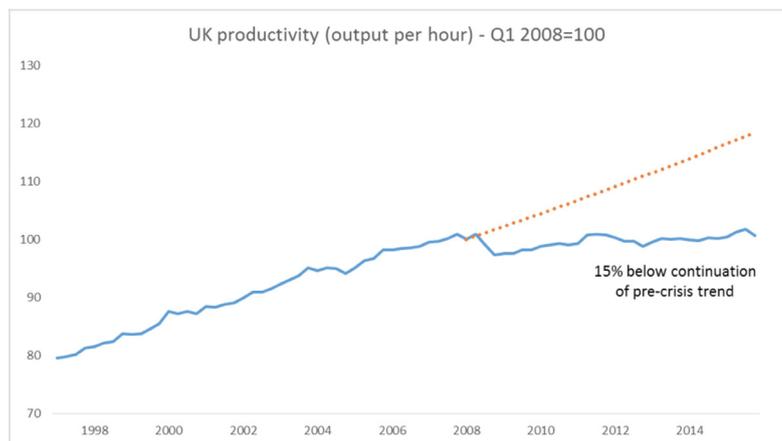
The US, UK and Germany have returned to growth. UK GDP has grown consistently since 2013 and is predicted to increase by 1.9% in 2016.<sup>47</sup> The US economy meanwhile is predicted to grow by 2.4% in 2016 and Germany by 1.5%.<sup>48</sup> In the UK, across domestic demand at least, this growth is relatively balanced between consumption and investment.

### Productivity remains stubbornly weak

However, much of the recent growth in the UK economy has been driven by rising population, higher employment and average hours worked. In contrast, productivity growth has remained sluggish. The graph below highlights the UK's weak productivity performance since the crisis and the 'shortfall' to its pre-crisis trend:

*Figure 10: UK productivity (Sources: ONS, CBI analysis)*

To some degree, most other advanced economies are in the same boat, though the gap between pre- and post-crisis productivity growth is particularly large in the UK. And this is not just a developed economy problem. A number of large emerging market economies including China, Brazil, Russia and Turkey have seen weaker productivity too.



Unchecked this threatens the long-term sustainability of growth in the global economy. Ultimately, by putting pressure on unit labor costs and limiting the ability of businesses to increase wages, weak productivity growth could act as a brake on improvements in living standards.

### The puzzle: cyclical or structural

The causes of weak productivity growth have been discussed at length. Certainly some of the weakness can be attributed to cyclical factors, which tend to be particularly acute following financial crises as deleveraging and tighter credit constraints depress spending. However, more than seven years on from the financial crisis, the view that cyclical factors alone are at work seems increasingly unlikely. Rather we must look to structural shifts in the economy to help us explain the puzzle.

With wage growth generally sluggish since the crisis, labor has been comparatively cheap, which may have encouraged firms to hire more people rather than invest in new capital equipment. In a low-growth environment, managers may have found it hard to make the business case for new productivity-enhancing

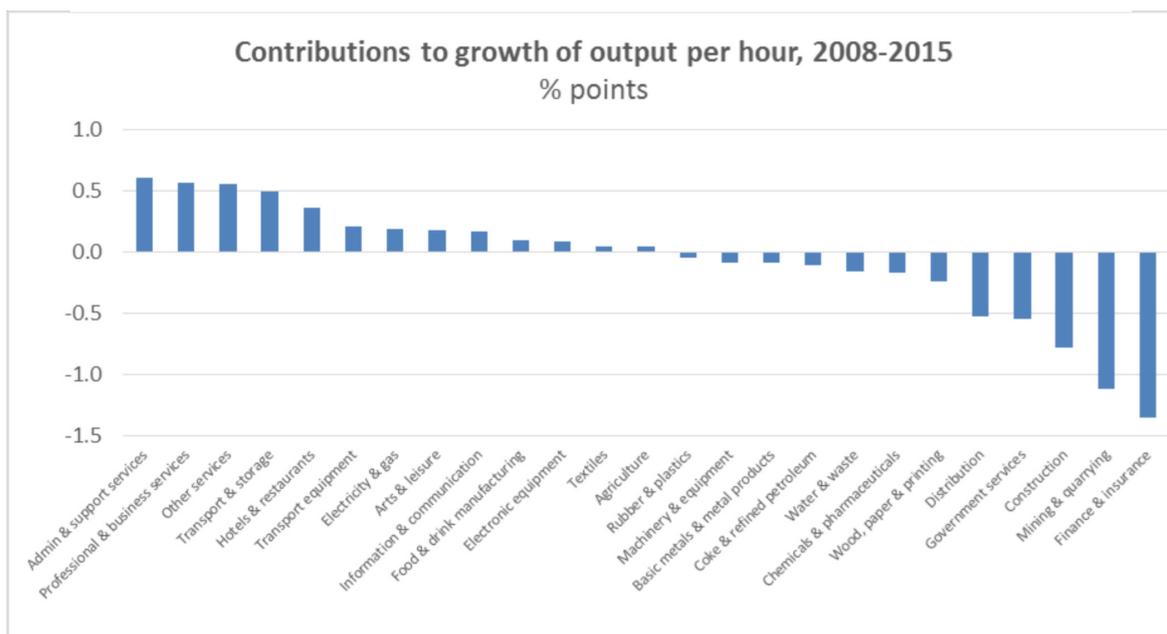
<sup>47</sup> IMF, World Economic Outlook, 2016

<sup>48</sup> IBID

investments or innovation in products or processes in the absence of volumes growth that could justify the expense. And the financial crisis may have had long-lasting effects on how workers and capital flows around the economy. Finance may not be reaching young, innovative firms with high growth potential. At the same time, low interest rates and bank forbearance may have enabled less productive firms to stay in business.

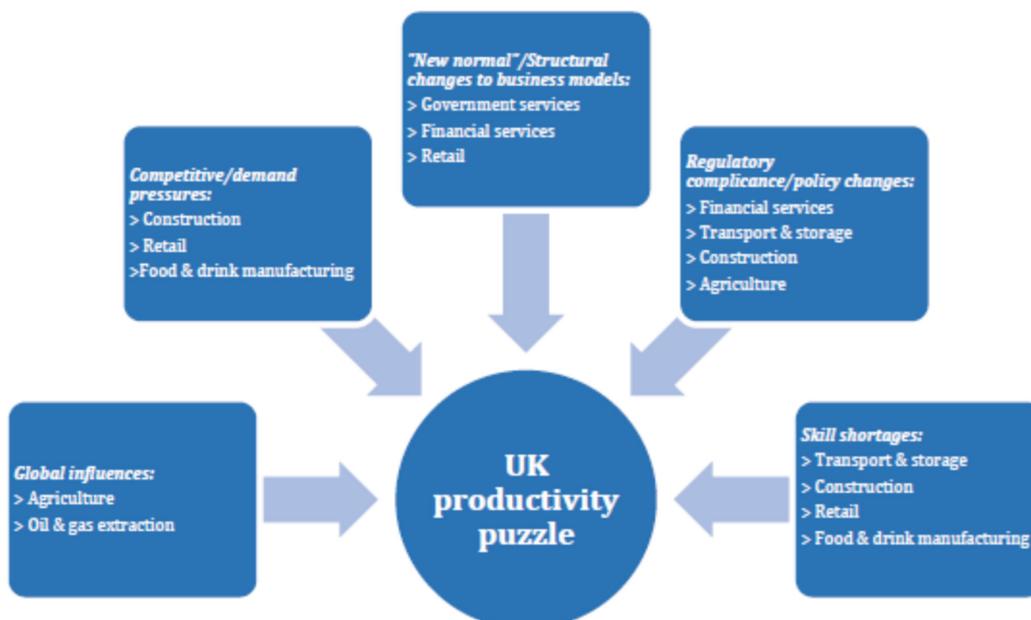
In the UK's case, some of the weakness in productivity can also be explained by developments in specific sectors. The chart below illustrates how four sectors in particular — financial services, oil and gas, construction and government services – have weighed on economy-wide productivity growth, which has increased by just 1% since the end of 2007.

**Figure 11: Contributions to growth of output per hour (Sources: ONS, CBI calculations)**



At the micro-level evidence from CBI members suggests a range of factors affecting productivity in their sector:

**Figure 12: Factors affecting CBI members' productivity (Source: CBI)**



Clearly cyclical issues have played a prominent role. Many sectors highlighted a tough trading environment and the retail sector is a good example of how this can permeate through the supply chain. But at least some of the shortfall since the financial crisis is structural with skills shortages and regulation being highly cited. If we fail to recognize and address these drags productivity may struggle to return to its pre-crisis growth path.

### **Spotlight on financial services: the impact of regulation**

The drag from financial services productivity is perhaps unsurprising, given that the sector was at the epicentre of the financial crisis. The fall in output per hour reflects heightened risk aversion in a post-crisis world, causing the sector to focus on less risky (and less profitable) activities. These yield a lower return, which translates into lower measured output. But our conversations with businesses also highlight the impact of increased regulation. Post-crisis, financial services firms have had to devote more resources towards compliance and risk management, which diverts resources away from more “productive” functions. The CBI’s June 2015 Financial Services Survey found that devoting more resources to “non-productive” activities (such as regulation) was the most widely cited reason for a slump in productivity. The second most cited factor was a shift to less profitable products and services, chiming with the argument of greater risk aversion. In addition to regulatory pressures, the sector is clearly undergoing a far-reaching transformation. The finance landscape is evolving, demonstrated by the rise of alternative finance providers such as “challenger banks”. When starting out, such companies can struggle with getting the right operating systems in place, which acts as a drag on productivity until they are up and running.

### **What is the path ahead for productivity?**

More must be done to boost productivity. Government can play a role, by both increasing public sector productivity and creating conditions for improved private sector productivity. This can be achieved by taking into account the effect on productivity and growth when implementing new regulations, as well as by encouraging, or at least not hindering, the improvement of the transport and communications infrastructure, and access to a skilled workforce.

Ultimately though, businesses need to be the main force behind their own productivity. The tried and tested route to higher productivity is through product and process improvement, better equipment, or through optimizing working practices. However, a lot of what we know about improving productivity is based on experiences in manufacturing. There is much less research into productivity in the services industries, where harder-to-measure factors such as the use of ICT, organization and marketing are the key drivers of productivity growth. This is why initiatives such as the Mayfield Review in the UK are so important. We want to see greater sharing of experiences and learnings between businesses and this knowledge being fed back into policymaking to help us get productivity growth back on track.

# – Chapter 13 –

## Unlocking value chains in emerging markets and the opportunities offered by getting greener

Mariano Bosch  
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Chief Sustainability Officer

Adecoagro

### The situation on the ground

In emerging markets, as well as in those more developed economies, there is huge potential for the growth of SMEs through the development of value chains – particularly those associated with food and renewable energy production. For example, natural conditions for growing crops result in some regions having the most efficient production cost of many commodities that contribute to global value chains (GVCs). Building chains in and across these economies fuels growth and development and is instrumental to the realization of Sustainable Development Goals.

SMEs participate at different levels and to differing extents in value chains. Taking the food chain as an example, hundreds of farmers and SMEs are involved in making possible just one of the foods that are regularly purchased from supermarkets worldwide. ‘From farm to fork’ starts from the owner of the land where crops are grown, to the providers of services (such as planting contractors, transport services), to the suppliers of inputs and the local processors or re-sellers, through to the retailers.

Those active agri-food chains are mostly located domestically, making it sometimes very difficult for SMEs to be fully coupled with global economy status, market trends, and especially finance access. As we have learnt from our own experience at Adecoagro, building chains must first begin from the most efficient base, namely the use of land, from which there is then more room to add value throughout the whole chain. Value-enhancing steps taken by SMEs along the chain include, for example, conservative agriculture under “no Till”, special seeds with high quality feed/food ingredients, environmental-friendly bio-fertilizers and modern machinery with GPS.

However, while many SMEs participating in such value chains have already developed sufficient know-how so as to be efficient producers and/or suppliers, thereby making their local knowledge their strength, the most critical bottleneck to enhancing value and growth is often their access to finance.

### Financing is key

Typically, local SMEs’ growth strategies are most aligned with organic and scale growth, trying to best leverage on their local and sector-specific know-how. In highly efficient chains, in which cash flow is steadily generated (with invoices paid in a timely manner), financing can be easily directed to investments. In such situations, SMEs are in a unique position to invest in best practices, sustainable techniques, state-of-the-art technology, and many other steps of the whole chain that boost economic growth. In developing and emerging markets, improved access to finance is therefore essential to trigger and enhance their development.

SMEs aiming to grow with an adding-value strategy face a set of challenges, topped by the need for more effective access to global markets, in order to understand the dynamics of GVCs and their growth opportunities. Although this is currently being supplied mostly through global information flows on Internet-based platforms, it needs to be enhanced by international agencies, both private and governmental, commercial and financial. However, even with access to such knowledge, SMEs ultimately

face the challenge of getting proper finance for their growth-strategies. This is a critical bottleneck for economic growth in emerging countries, as most of their SMEs are unable to grow. As SMEs in developing countries account for a relevant share of global value-added, adequate finance access is the key that would help unlock economic growth in emerging markets.

## Focus on getting greener

All agri-food value chains must meet growing demand for food while at the same time addressing environmental challenges, and thus improved access to financing for agri-food SMEs is also vital for greener economies. Having effective access to better finance should be considered by governments as a way to enhance economic growth through GVCs. When talking specifically about Latin American value chains, it would be most recommended that value-added strategies and their finance tools, be aligned to develop and enhance natural efficiencies. Those most efficient systems should be considered by governments when prioritizing financial regulations and tools. By doing this, there would be increased opportunity to create more value along GVCs.

As explained before and as demonstrated by our own experience at Adecoagro, most efficient chains are those that begin with the most efficient use of natural resources. Such a strategy, coupled with implementation of best practices and harnessing environmental-friendly technologies, has to be a priority in order to deliver highly sustainable chains. This means that it is most crucial for those chains to be enhanced by improving their investment capacities through improved access to financial services, and particularly to targeted green financing.

Indeed, development of green finance and green investments play an increasingly critical role in order to achieve more equitable and enduring economic growth. Financing investments that encourage such development of a more sustainable economy is not only beneficial for society, but also for governments and businesses alike. Promotion of green finance, especially aimed at the most efficient GVCs, needs to be encouraged as it will have a tremendous and replicable effect on the growth of SMEs, and thus, on the global economy as a whole. Such a financing strategy will also incentivize more rapid and effective repayment behaviors.

In conclusion, as SMEs are critical to creating economic growth, and while governments and societies are willing to draw the path for sustainable development, it is fundamental that access to finance for SMEs be enhanced, and most importantly finance be designed to support and enhance greener investments.

# – Chapter 14 –

## Green finance: opportunities, challenges and the case for public and private sector participation

Hiroki Miyazato

**Global Chairman**

**Haitong Bank S.A.**

In the past century, the world has witnessed the fastest development in human civilization. We have lifted millions of people out of poverty, achieved an advanced level of technology and continued to expand our vision in the wider cosmology. Such exciting development, however, has been accompanied by large scale depletion of environmental resources. For three decades, China's export-led model has brought the country unprecedented growth, but environmental degradation serves as a painful reminder of its cost. Countries such as Brazil and India also witnessed their economies flourish while the Amazon rainforest and Ganges delta suffered tremendously, with people's livelihoods now threatened by climate change.

In order to deliver the full potential of green finance, public and private enterprises of all sizes and of all G20 countries need to join forces behind the common goal of sustainable development, SMEs have a particularly important role to play: on the one hand they account for a large part of the world's consumption of resources and generation of waste, while on the other they are vital for driving eco-innovation and supporting emerging greener industries. SMEs participate actively in sectors such as renewable energy production, smart metering, building refurbishment, cleaner cars, wind and solar installations, and battery development.

Recognizing the vast investment required for a greener global economy, the role of finance (including SME finance) is more important than ever. This year, China is making green finance, i.e. the practice of making financial investments into projects and initiatives that improving and safeguard the environment, a focus of its G20 Presidency.

### Recent developments

In December 2015, COP21 (the UN Climate Change Conference), witnessed a historic development in Paris.<sup>49</sup> It successfully mobilized all countries globally to formulate practical strategies to deliver a green economy while sustaining long-term economic objectives and global security. Such strategies complement and support the Sustainable Development Goals agreed in September 2015 by the United Nations.

The response around the world has been positive. In January 2016, the London Stock Exchange established a designated green bond segment. In the same month, the Bank of England and the People's Bank of China announced that they will co-chair the G20 Green Finance Study Group, focusing on encouraging the private sector to direct investments for low carbon infrastructure and development.<sup>50</sup> The purpose of this group is to identify institutional and market barriers to green finance, and enhance the ability of the financial system to mobilize private capital for green investment.

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<sup>49</sup> UNFCCC cop 21 Paris.

<sup>50</sup> Green Finance paper by the Export-Import Bank of China.

Holding the G20 Presidency, China has been taking proactive steps to demonstrate its thought leadership and commitment in green finance. For the first time in history, China included green finance in its 13th Five Year Plan, setting targets and outlining plans to help the country transition to a low-carbon economy. Last year, China established The Green Finance Task Force, setting clear guidelines to help shift investments from polluting to sustainable industries, in order to be a new driver of economic growth and to transform its sustainable development pathway. This will include a green stock index, a green ratings system, green bonds, nationwide carbon and pollution trading markets, and promoting green bank lending.

In the March 2016 Bo'ao Forum, PBOC Governor Zhou Xiaochuan reinforced that green finance is crucial to China's financial reform. However, a clearer definition of green finance and stronger standards of transparency are needed to make green finance a global success. In order to achieve this, true global cooperation is needed.

## Prospects for green finance

Strengthening global cooperation for green finance calls for a systematic arrangement of market-based institutions. This will help promote and stimulate eco-friendly green investments through services and products ranging from stocks, bonds, private equity, insurance, green lending and carbon emissions trading. These present a great opportunity for global value chains, and provide room for both public and private sectors to participate. China alone needs approximately CNY 2-4 trillion (USD 300-600 billion) a year in order to finance a lower carbon infrastructure and cleaner environment.<sup>51</sup> According to the People's Bank of China, around 85% of this will need to come from the private sector.

However, despite the significant potential for businesses of all sizes and across regions, the impediments remain – such as finding the right financial incentives, lack of understanding and expertise, the perception that green investment is riskier, and a distortion in green finance asset price signals.

Many green finance initiatives remain in their infancy, held back by lack of applicable expertise, market uncertainty and the global economic outlook. China's opening of its green market presents opportunities for private sector investments. With the right policy incentives and financial sector reform, private players may look to extend their involvement in green finance.

## Green bonds and beyond

G20 governments and private sectors can deploy the power of financial markets to help meet these challenges, mainly through the provision of green loans for sustainable investment, green insurance, and capital market instruments. Capital markets are particularly important, because they can channel large-scale investment into sustainable projects.

Compared to other financial products, green bonds are less complex to structure. They have the same resort to the issuer as traditional debt, with minimum requirement in special cash-flows and financial engineering. This makes them more immediately appealing to investors. Perhaps this is why there has been a tripling of issuance size of green bonds over the recent years. In 2015, USD 42 billion of green bonds were issued, a historic best for the sector.

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<sup>51</sup> "How much money does China need to finance its green revolution?" China Dialogue, 5 April 2016.

Countries such as the UK and Germany have rich experience in green finance and technological know-how, which will undoubtedly be embraced by emerging nations. With a robust framework and solid policy support, there is a real chance to make green bonds a success. The launching of the International Capital Market Association's Green Bond Principles and the Climate Bond Initiative set great examples of how advanced economies and developing countries can work together, and share the benefits across global value chains.

## Past cases and outlook

In recent years, we have seen various green finance initiatives. Some have achieved excellent progress while others experienced setbacks. Germany has been nurturing technologies and talents in alternative energy, being among the earliest adopters of solar technology. Not all countries enjoy the same level of experience or expertise. Banks in emerging markets are new to the technology and often hesitate to lend to solar projects. This is compounded with the lack of feed-in-tariffs and thus a lack of certainty in cash flows for solar projects. The funding costs therefore tend to be high and this impedes construction projects.

Looking into the future, actions for green finance are not without great challenges. The global economy still faces much uncertainty and creating a sustainable financial system requires a collaborative effort involving all parts of the global value chain. Through its G20 Presidency, China can take its green finance vision further, raising awareness and spreading best practice internationally. Together, we can achieve a greener and safer world.

# – Chapter 15 –

## The New Silk Road: Will Tax Be a Facilitator or a Barrier?

Jeffrey Owens

Director WU Global Tax Policy Center at the Institute for Austrian and  
International Tax Law

### Introduction

More than two millennia ago, Eurasian countries opened their trade routes linking Asia, Europe and Africa. The Silk Road symbolized the spirit of a shared cultural heritage. Today, that heritage is being re-launched by China, with its “one belt, one road” initiative. The aim is to develop new overland and maritime links, which will once again bring together China, Central Asia, Russia and Europe and link these countries to both the Indian Ocean and the Mediterranean Sea. The implementation of the “New Silk Road” (NSR) will focus on improving the inter-connectivity between the countries along the route and will open up new opportunities for investment in communication links (road, rail and shipping) and new opportunities for cooperation in the areas of energy, transportation, agriculture and manufacturing.

Achieving this vision will require billions of dollars of investment in infrastructure and the development of new manufacturing centers, many in tax-free zones. The need for such investment was one of the reasons which led the Chinese government to create the Asian Infrastructure Investment Bank (AIIB), one of whose first actions was to set up “The Silk Road Infrastructure Fund”, and to support G20 initiatives in this area.

This chapter explores the question of whether tax, broadly defined, will be a facilitator or a barrier to the development of the New Silk Road.

### The New Silk Road: The tax dimension

The countries along the New Silk Road have diverse taxes and all of these taxes – whether on profits, income, consumption, capital or property – will potentially impact on the decisions of both the public and private sectors to undertake the long term investments required to achieve the goals set for the NSR.

One of the key issues is: how will these different national taxes interact? Will they create uncertainty and be applied in ways which will lead to double taxation? Or will their interaction lead to a tax environment which provides the certainty, predictability and consistency which business need?

Inevitably, cross-border tax disputes will arise and this will require effective dispute resolution mechanisms.

### Tax levels, structures and tax administrations diverge

Comprehensive data does not exist but information provided by the IMF<sup>52</sup> suggests that in Central Asian countries, tax levels are on average less than 25% of GDP, with some countries raising less than 15% and others more than 30%. The main sources of revenues are derived from the extractive sector and VAT; taxes on immovable property, social security contributions and personal income tend to be low. The tax

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<sup>52</sup> See IMF government finance statistics (GFS), 2015

administrations in these countries are weak and many lack the basic skills necessary to apply complex international tax rules and are often subject to corruption.

## **VAT systems deviate from the international norm**

With the notable exceptions of Russia and China, which will complete their transformation to a proper VAT system in 2016, most of the countries on the NSR do not operate standard VAT systems. VAT refunds are paid, if at all, after long delays; services are given a broad exemption. In many cases, VAT operates more like a tax on imports and exports. There is a need for a comparative analysis of VAT systems in the region, leading to recommendations on how these systems could be modified to facilitate inter-regional trade and establish a Multilateral VAT convention, which would ensure that cross-border trade in goods and services is treated in a consistent way.

## **Excises and tariffs need to be harmonized**

In comparison to other emerging economies, tariffs and excises are relatively low, except for agricultural goods. Exports and imports between these countries remain limited (less than 1% of China exports and imports go into countries in the Eurasian region). The exception is the inter-regional trade in the areas of natural resources, reflecting the construction of a number of regional distribution networks over the last ten years. Despite the low rates of these excises, there remains scope for greater coordination between countries in the design and implementation of these taxes.

## **The network of bilateral tax treaties is incomplete**

Whilst China and Russia have a broad network of treaties, most of the other NSR countries have very limited treaty networks. Even where treaties are in place, they do not always reflect current economic trading patterns. We need an up-to-date analysis of the existing tax treaty network, which would identify which provisions require modification to facilitate trade and investment. These countries may wish to consider developing a multilateral instrument to coordinate provisions, thereby facilitating closer economic integration. Particular attention should be paid to the mechanisms found in treaties to minimize and resolve cross-border tax disputes and there may be a case for initiating a NSR Arbitration Council, which would have overall responsibility for improving the operations of mutual agreement procedures found in tax treaties.

## **Transfer pricing practices need to be harmonized**

Apart from Russia and China, most of the countries along the NSR have rudimentary transfer pricing rules. Frequently, the legislation is unclear, the information requirements are inconsistent, and the experience of tax administrations in applying the rules is at a very early stage. Achieving the goals of the NSR will require greater coordination of the valuation rules of intra-multinational transactions and greater consistency of the valuations used for VAT, customs and transfer pricing purposes.

## **Will tax incentives lead to a race to the “bottom”?**

Governments will use tax incentives to encourage companies to invest along the Silk Road, which could lead to fierce tax competition, undermining the tax base. One way to avoid this would be to have an agreement between the countries – a code of good conduct – on the design, application and monitoring of tax incentives, so that their operation is transparent, effective and accountable.

## The network of bilateral investment treaties (BITs) is incomplete

The network of BITs is incomplete between the Central Asian countries, although China and Russia do have extensive networks. There is considerable divergence in the BIT norms, although all provide for investor-to-state dispute resolution mechanisms, and in the vast majority of countries, tax is not explicitly excluded from the BITs. It would be desirable to explore the development of a model BIT agreement, perhaps based upon some of the recent proposals put out by UNCTAD.<sup>53</sup> It may also be helpful to examine the interaction between BITs and Tax Treaties.

## What changes to domestic and international tax arrangements are needed to encourage investment in infrastructure?

The investment in infrastructure required to complete the NSR will run into many billions of dollars. This investment will be undertaken by a mix of the public sector, state owned businesses, private/public partnerships, and the private sector acting on its own. One of the main defining characteristics of this investment is that it will require a long term commitment and involves projects which cross many frontiers. If we are to avoid that tax acts as a barrier, the countries along the route need to engage in a collective reflection on the following issues:

- \* Are the current tax rules facilitating the financial intermediation, which would be required to finance these projects?
- \* What can be done to achieve greater consistency in the design and application of VAT systems and tariffs and excises?
- \* Can a code of good conduct on the use of tax incentives be agreed upon?
- \* Do provisions incorporated into BITs or tax treaties either hinder or encourage such investment and provide the certainty that investors seek?
- \* Are dispute mechanisms in these instruments effective?
- \* More generally, will taxpayers' rights be respected in countries which have very different approaches to dealing with taxpayers?

This is a very ambitious tax agenda but unless these issues are addressed quickly, the risk is that tax will end up by being more of a barrier than a facilitator of the development of the NSR.<sup>54</sup>

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<sup>53</sup> Refer to the UNCTAD World Investment Report, 2015

<sup>54</sup> The WU Vienna University of Economics and Business, in cooperation with a number of Chinese Universities, has launched a major project to examine these issues, with the aim of having a conference, jointly hosted with the World Bank in early 2017.

# **– Chapter 16 – Building SME financial capabilities in global value chains**

Rosanna Choi FCCA

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The global drive for economic recovery has placed a huge focus on supporting SMEs as a vehicle for job creation, economic stability and wealth creation. With globalization creating internationally dispersed supply chains that benefit from easier and more cost effective logistics, and equally easier and more cost effective communications, ensuring that SMEs make the most of these opportunities is a promising area for policymakers to pursue.

There are a number of issues that we rightly discuss when it comes to financing SMEs, including those in global value chains (GVCs), such as credit conditions, the diversity of financial products and the cost of financing. But building financial capabilities within business may well be an overlooked area deserving of further attention.

ACCA Global Forum for SMEs has been considering these issues for some time. In February 2014, the Forum cited supply chain finance as one of the most promising tools for financing small businesses around the world, and noted the potential for further innovation in the sector. More recently, the Forum discussed the challenges that SMEs face in pursuing opportunities in GVCs and it would appear that the one topic we always return to is the need for a greater focus on building financial capabilities in SMEs.

We believe that financial capabilities in SMEs are not just a consequence of success but, rather, one of its very causes. SMEs with well-developed financial capabilities are much more likely than others to be growing rapidly and sustainably. While the impetus for finance function development often comes from investors or supply chain partners, most of the value stays with the business itself. In other words, a well-resourced finance function is a source of competitive advantage.

And nowhere is this more evident than in the GVC context. By their very nature, GVCs add challenges and complexities to developing complete and accurate costing. Long lead times, multiple trading partners and service suppliers, international duties, tariffs, taxation, and increased risks, are but a few of the critical factors that must be accounted for and understood. Similarly, as large buying organizations are seeking to manage their sensitivities to the inherent risks within, and the resilience of, their value chains, small businesses need to respond to these demands by demonstrating their own robust financial management. We know that small but growing businesses have to manage scarce resources and juggle competing objectives. Ensuring that financial controls and management processes are in place and able to meet these demands will not only ensure that they are able to manage their relationships with large buyers, but also benefit their business operations throughout.

Ultimately, a strong finance function makes SMEs more creditworthy and investment-ready. By the time a business owner or manager arranges to meet with the bank manager, or an investor, most of their chances of success are already determined by the nature of the business and the way its finances are run on a day-to-day basis. For instance, the strength of a business' cash flow is the strongest determinant of creditworthiness, but it's hard to improve overnight.

This proactive approach is critical to the development of young businesses. From accessing finance and managing cash flow to managing relations with big buyers, early planning and capacity building in-house can achieve at a modest cost what no amount of last-minute advice can deliver later on. We need to remind SMEs to avoid firefighting through good day-to-day financial management; from knowing how to present a business plan and being able to navigate through the available financial products, to knowing how to apply business skills and acumen to manage and develop their business with a strategic approach to its operations, and ultimately finance.

ACCA (Association of Chartered Certified Accountants) has recently launched a guide for entrepreneurs on financial management and we look forward to promoting this through our global network. More generally however, the accounting profession needs to develop closer ties with governments around the world with the explicit purpose of accelerating capacity building and developing professionalism among small businesses. Increased business formalization is a win-win proposition that can deliver more sustainable global value chains, and ultimately faster and more resilient economic growth.



# SECTION 4

**Reaping the benefits and  
addressing the challenges  
posed by digitalization**



# **– Chapter 17 –**

## **The advantages of digital technologies for SME financing in global value chains**

Diane Wang

**Chief Executive and Founder**

**DHGate.com**

The success of SMEs is hindered by limited access to finance. Traditional banks fail to meet the full needs of SMEs, who encounter more financing obstacles than larger firms. Higher interest rates, strict collateral guarantee requirements, and non-inclusion from credit ratings all make it significantly difficult for SMEs to secure the funding they need to operate and grow their businesses. Additionally, current collateral frameworks are based mainly on immovable assets, such as real estate and land, which often unfairly disadvantage SMEs.

The SME Finance Forum estimates that the total unmet global demand for credit by SMEs in 2016 is \$3 trillion, with an astounding 200 million SMEs that lack access to credit. However innovative mechanisms are emerging that promise to broaden the range of available financing options.

In China, the booming cross-border e-Commerce industry has proven to be the ticket for SMEs, to not only access global markets, but also to benefit from the ability to access microloan financing through cross-border e-Commerce platforms, with funds supplied from financial institutions.

In 2015, the Chinese microloan industry alone was worth \$77.21 billion. Specifically speaking, microloans administered by e-Commerce platforms are value-added services to buyers and sellers on their platforms. After borrower authorization, e-Commerce platforms actually supply the lender with data generated on their platform as well as from third party providers, and the lending institution actually then uses this big data to analyze and determine risk. To accomplish this process of providing microloans based on big data, the applying SMEs must have already conducted business on the cross-border e-Commerce platform, which generates a tremendous amount of data. The data generated is not just limited to transaction history; buyer feedback, logistics data, and inventory data are all factored into risk assessment.

There are two major types of e-Commerce microloans: e-Commerce credit microloans and e-Commerce supply chain microloans. Both types of financing require no collateral or guarantor on the part of the borrower.

In order to access an e-Commerce credit microloan, buyers or sellers first must apply for a loan through the platform. Next, the e-Commerce platform supplies the lender with the data. If the borrower is approved for the loan, they can then apply the entire amount to the purchase of goods that they plan to buy or sell on the platform. This type of loan exists as a line of credit to the buyer or seller, and allows them to continue to operate their import or export business.

The process for an SME to acquire and use e-Commerce supply chain microloans is similar, however it is a more common practice for sellers to use this type of financing. Upon receiving an order, the seller must then ship the goods before they can apply for a loan. The purpose of these loans is to supply sellers with enough capital to acquire more products, to scale up their operation. Next, just like with the e-Commerce credit microloan, the e-Commerce platform supplies the lender with the data used to evaluate risk. Upon being approved for the loan, the borrower then can apply the granted funds to the order that he or she sold on the e-Commerce platform.

An example of a business that engages in this practice is B2B e-commerce company DHgate.com, which has partnered with financial institutions to form DHfinnet as a separate business, and has now entered into direct competition with the traditional financial market. E-Commerce microloans obtained with the assistance of DHgate.com have an overall success rate of 99%.

To observe a case study of e-commerce micro financing in action, we can examine the business operations of Mr. Liu Xiaojing, a cross-border e-Commerce seller from Sichuan, China. In 2014, Mr. Xiaojing applied for and received more than 2,000 online microloans via cross-border e-commerce marketplaces, for the purpose of maintaining capital to continuously supply inventory to his customers. Every time he shipped an order to an overseas customer, he would enter the tracking number online, and immediately a dialog box would appear on his browser, asking if he would like to apply for a loan. At the click of a button, he could receive a microloan within 30 minutes, and apply it to up to 80% of the goods' value, with no collateral or guarantors required.

According to iResearch, the Chinese Internet finance industry is already worth \$1.5 trillion and is set to be worth \$2.75 trillion by 2020. Internet finance is in its preliminary stages of development, and in the future we should expect continuous growth in the industry, as well as innovative new models that utilize new technologies and resources to provide financing in different ways.

# – Chapter 18 –

## The digital transformation of financial services: Crucial for SMEs

José Manuel González-Páramo

**Member of the Board of Directors**

**Chief Officer, Global Economics, Regulation & Public Affairs**

**BBVA**

SMEs have played a major role in the global economy up to now, providing a very significant part of employment, innovation and value added. In the coming future, it is crucial for the prosperity of societies that SMEs continue constituting such an important force in the economy. However, they are already facing multiple challenges in a changing environment, where the digital transformation is starting to affect most aspects of their businesses. In particular, the digital transformation is a key ingredient of the three main issues that the sector is starting to face.

**1. Digitalization is triggering changes in the way SMEs access finance.** Traditional funding providers are adapting their business models, new digital funding providers have already entered the market, and new digital products are transforming the way that SMEs access finance. For example, the way that funding providers access digital information on the credit quality of SMEs will change and new Internet-based funding platforms are already available. Alternative finance can constitute a perfect complement to bank credit, in particular for the first stages of a project or risky initiatives.

It is important to understand in what way digitalization is altering the finance market. The digital transformation of financial services combines enabling technologies, innovative infrastructures and new business models to better address changes in clients' behaviors, needs and expectations. Financial players are revamping the way they create value for their clients by designing and delivering digital products and services with a better user experience.

**2. The digital trend is also having a big influence on the access to global value chains.** For example, the cross-country accreditation of standards and certifications and the matching of firms with international clients or suppliers are becoming more efficient using digital means. In this sense, e-Commerce will likely play a more significant role in the activities of SMEs.

**3. Finally, the regulation and processes faced by SMEs are changing due to these trends.** New technologies are assisting with the bureaucratic procedures that firms have to fulfill (like starting a business, export/import requirements or bankruptcy processes). Financial regulators are now challenged to provide a regulatory framework that balances the promotion of these digital value propositions and the protection against associated risks. Moreover, regulation will also need to reach an equilibrium between financial stability and the development of new business models that introduce efficiency gains in the market.

All the agents that intervene in financial markets are being affected. Banks and other digital financial services providers are rethinking traditional retail banking products and the means of delivering them in order to create compelling value propositions for their clients.

SMEs could greatly benefit from increased competition among digital financial services providers, as they would have access to more affordable and more innovative products and services. In addition, this competitive environment has the potential to make financial products and services available to large numbers of firms previously unwilling or unable to utilize them. As the digital ecosystem blurs physical barriers and geographical boundaries, the pace of technological change accelerates and fast-growing financial services providers exploit economies of scale.

However, for this process to succeed, some obstacles have to be removed. Divergent local regulations and public policies hinder the benefits of reaching a global market for clients. Therefore, further international harmonization, as well as coordination between financial regulators, data protection supervisors and competition authorities is needed.

The examples of aspects that have to be reviewed include the use of big data, where legal certainty on the use of large volumes of data and the alignment of national data protection rules are crucial. The use of big data could limit the information asymmetries that SMEs have to face, as it is usually difficult for them to prove that they have a profitable business model and that they will be able to return the credit they seek.

The digital transformation of financial services is a process that has recently started, but that will change in a radical way the funding market for SMEs. Once obstacles have been removed, the process has the potential to bring significant advantages to both financial service providers and SMEs.

# – Chapter 19 –

## Digitalization and managing cyber risk

Juan Colombás <sup>55</sup>

Group's Chief Risk Officer

Lloyds Banking Group

### The Cyber Risk

'Cyber Risk' is the risk of financial loss, disruption or damage to reputation from a malicious attack that impacts the confidentiality or integrity of electronic data or the availability of systems. It remains one of the most significant – and growing – risks facing business. In a digitally enabled, interconnected and automated world of information systems, compromises of information can have a devastating impact on businesses, including their customers and suppliers.

### What does this mean for SMEs?

SMEs face some difficult commercial decisions in providing solid governance and technology to run their business. Many have limited budgets and could not survive a major data compromise or loss of technology. 74% of SMEs suffered a security breach last year with an average cost of GBP 75k – GBP 311k, with 38% of SMEs reporting an attack by an unauthorized outsider<sup>56</sup>. SMEs are clearly exposed to cyber-attack and fall prey to attacks such as phishing, ransomware and DDoS due to a low sophistication of IT infrastructure (e.g. shared networks), technical controls (i.e. off the shelf products) and supporting processes including education and awareness for SME CEOs and colleagues. Against such high recorded crime numbers, surveys unfortunately show how SMEs are putting themselves at huge risk by underestimating cyber-attacks, with only half of them considering likely, or even just possible, that they would be a target, with only a third feeling that they are 'completely prepared' for a cyber-security breach<sup>57</sup>. In addition, many cyber-attacks go unreported to avoid embarrassment and reputational damage – for example British businesses are increasingly paying off online extortionists with Bitcoins as it is seen as the most expedient (and sometimes only) route to recovering data, rather than reporting attacks to the police<sup>58</sup>. This, in turn, increases the return on investment which encourages extortionists to continue, including developing more ransomware.

Comparatively, large businesses continue to invest in multi-layered technical defenses, comprehensive data backup, vulnerability and patch management, dedicated incident response centers and bespoke education and awareness programs. This further increases the gap with many SMEs already struggling to keep up with their larger counterparts. Less well-defended SMEs present a compelling proposition to cyber criminals who determine that attacking a large number of SMEs achieves a higher return on investment than targeting

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<sup>55</sup> I am grateful to Jeff Brooker, Matt Young and Gianluca Riccio for their invaluable contributions in writing this paper.

<sup>56</sup> Information disclosed in the 2015 Information Security Breaches Survey, which surveyed 664 large, medium and small enterprises, from all industry sectors. The survey is a key commitment in the Government's National Cyber Security Strategy.

<sup>57</sup> Information provided in the Cyber Streetwise and KPMG survey of 1,000 small businesses across the UK.

<sup>58</sup> Taken from analysis carried out by ActionFraud for the Financial Times.

one large well protected business. Such an approach may also mean that the criminals attract less attention from law enforcement reducing the risk of disruption to their activities by operating “below the radar”. This in turn, however, puts large businesses at risk of compromise with cyber attackers targeting the supply chain of large businesses as an easier route in (e.g. the data breach at Target<sup>59</sup>).

## What more can large businesses and governments do to help?

Identifying and pursuing cyber criminals poses a unique challenge to law enforcement as criminals operate across international borders – the direct reach of domestic law enforcement is restricted with enforcement ending at national boundaries. The threat is not restricted to international boundaries – governments and law enforcement across the globe must work together to share intelligence and do more to ensure cyber-criminals are pursued, disrupted, and prosecuted.

Government, law enforcement, large businesses (including banks and insurers), and academia, need to join forces under national security information centers (in the UK, this is the new UK National Cyber Security Centre<sup>60</sup>) to share best practice information and provide proactive defense of digital infrastructure. These facilities should be extended to SMEs so that they can benefit from an ecosystem with cross industry collaboration, enhanced cyber threat intelligence, scenario-based testing, and education and awareness programs.

Taking the UK as an example, businesses of all sizes form the hub of our economy and are critical to our future. Government and large businesses should do more to influence key organizations to make the Internet safer for everyone. For example: providers of major operating systems to build ransomware detection into their core products; Internet Service Providers to filter network DDoS traffic; and Messaging Service Providers to filter spam emails.

“Cyber Essentials” is a scheme launched by the UK Government in 2014 for all UK organizations of all sizes, and in all sectors with the aim of reducing cyber risk across all organizations by following basic cyber hygiene. From 1 October 2014, the UK Government requires all suppliers bidding for certain sensitive and personal information handling contracts certify against the scheme. Large businesses should work with their suppliers to share best practice and mandate the scheme or an equivalent for all SMEs in their supply chain.

Such practices should then extend cross-border, as fighting global criminals from within national boundaries and legislation is akin to when sea trading routes were first being established and a lack of international legislation meant that many routes were unsafe and exposed to piracy. As nations realized that cooperation was essential, laws were established that resulted in piracy largely being eradicated over time. A similar approach is now required on a global scale to address the growing threat of cyber-attacks. Leveraging the use of digital technologies, G20 Leaders should encourage the sharing of timely information between different actors (including SMEs, large corporates, and financial service providers). Such a secure information exchange will enhance security and additionally favor the flows of financing, skills, and investment throughout the global economy.

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<sup>59</sup> The data breach at Target in 2013 was caused by weaknesses in the third party supply chain.

<sup>60</sup> The new UK National Cyber Security Centre.

# – Chapter 20 –

## Data: the fuel of the digital economy and SME growth

Laurence Morvan  
Managing Director, Office of the CEO,  
Accenture<sup>61</sup>

### Digital is redefining business and society at an astonishing pace and scale.

Increasingly the way we do business is digital, the way we interact is digital. Taking comprehensive measures of digital labor and capital, Accenture Strategy research<sup>62</sup> assessed that 22% of the world economy can already be attributed to digital skills, capital and intermediate goods and services.

Yet, digital's ability to unlock productivity and growth is far from being fully exploited. Our model shows that a 10 basis point improvement in the three levers of digital skills, digital technologies and digital accelerators – i.e. the underlying conditions to support the widespread adoption of the digital economy - could add 2 to 3 percent, if not more, to 2020 GDP in the countries surveyed<sup>63</sup>.

### The fuel of the digital economy is data.

The amount of data produced is growing exponentially. From the dawn of civilization to 2003, Google calculates humans produced 5 exabytes of data. We now generate 2.5 exabytes of data every single day, and IDC estimates that the amount of data will double every two years to 2020!

Data is diverse, created by the billion people using social networks or digital cameras, by businesses connecting employees, suppliers and customers through their digital platforms, by the millions of sensors, connected objects and communications' devices sending and receiving data over the Internet.

In the 21st Century, globalization will be increasingly defined by flows of data and information. Cross-border data flows are soaring, a 45 times increase between 2005 and 2014, now topping global flows of trade and finance.<sup>64</sup>

### So the problem today is no longer the absence of data, in fact, companies are flooded with it. The key now is to collect the right data that's accurate and trusted, and to mine it for business value.

In a survey of companies using Big Data across 19 countries<sup>65</sup>, Accenture Analytics found that approximately two thirds of companies worldwide had completed at least one big data implementation so far, typically starting with focused initiatives to improve personalization (for instance data-driven insights feed location-based services such as special offers to customers), or to optimize operations (for instance data mined from smart devices such as pipelines or planes allow for predictive maintenance and assets optimization).

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<sup>61</sup> Accenture is a global management consulting, technology services and outsourcing company. It is the knowledge partner of the B20 SME Taskforce.

<sup>62</sup> Digital Disruption: the Growth Multiplier, Accenture Strategy (2016)

<sup>63</sup> Digital Disruption: the Growth Multiplier, Accenture Strategy (2016)

<sup>64</sup> Digital Globalization : the new era of digital flows, McKinsey Global Institute (2016)

<sup>65</sup> Big Success with Big Data, Accenture (2014)

Expectations about big data among survey respondents convey the enormous potential it creates. The vast majority of executives stated that big data will revolutionize the way they do business and that companies that do not embrace big data will lose their competitive position.

## **The potential for inclusive growth through SME access to new data and digital capabilities is huge.**

Larger companies have tended to lead in the exploitation of big data and digital technology, given the related investment requirements – i.e. skills, infrastructure and technology. Yet the development of ‘pay per use’ technology, such as cloud computing and new digitally enabled business models, are reducing investment requirements and opening up access to new customers, for small businesses and entrepreneurs around the world.

E-Commerce for example is proving to be a game changer for SME participation in global value chains. In joint research, Accenture and Alibaba Group<sup>66</sup> estimated that the value of the cross border B2C e-Commerce will grow from US\$ 230 billion in 2014 to US\$ 994 billion in 2020, accounting for 29.3% of the global B2C e-Commerce market and 13.9% of global consumer goods’ trade. E-Commerce increases SME access to overseas customers, enabling them to more efficiently promote their products and services and process payments.

Internet technology is significantly increasing SMEs’ access to finance, through the development of innovative alternative financing mechanisms and also by reducing the risk and cost of servicing SMEs, with new credit scoring mechanisms based on mining transaction data held by online marketplaces about sellers and buyers.

## **However, the digital economy challenges traditional approaches to regulating economies and markets.**

The borderless nature of the digital economy driven by global data flows, the associated concerns about data privacy and security, the speed of change associated with developments in technology and their disruption of traditional business models, all challenge traditional approaches governments have taken to regulate economies and markets.

To secure customer and citizen ‘trust’ and confidence in the digital economy, businesses and governments will be required to demonstrate that they use personal data responsibly, including guaranteeing the protection of data from a privacy and security perspective, and demonstrating that there are benefits to the sharing of data, with accountability for misuse.

## **Governments must put in place the right framework conditions to realize the potential of the digital economy for inclusive growth.**

Governments will need to take a strategic approach to regulation – limiting unnecessary costs and complexity for businesses while inducing innovation and participation of SMEs in the digital economy. In particular they should:

- \* Facilitate access to finance, minimize red tape, and working with business and educational institutions develop a skilled digital workforce. The Accenture 2015 Digital Density Index reveals that the world leaders in the digital economy have put in place these framework conditions.

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<sup>66</sup> Global cross-border eCommerce Market Report, Accenture and Alibaba Group (2015)

- \* Provide the necessary tools to facilitate the free flow of data, while ensuring an adequate level of protection. There should be no unnecessary restrictions on the free and secure, flow of data, including data localization, which drive up costs and limit consumer choice
- \* Ensure the inter-operability of standards and mutual recognition of rules, particularly on data protection;
- \* Recognize international and industry-driven information security standards, with third-party audit and certification assessment to manage security risks.

Accenture welcomes the B20 SME taskforce recommendations to accelerate the development of e-Commerce, fintech and innovations ecosystems as tools for inclusive access to finance, global value chains and innovation for SMEs.



# SECTION 5

## Directions for the G20



# – Chapter 21 –

## A comprehensive and coordinated approach for financing growth to support SMEs in global value chains

Gianluca Riccio, CFA

**Rapporteur**

**Roundtable on Financing SMEs in Global Value Chains, 31 May 2016**

On 31 May 2016, representatives from B20 Taskforces, SME associations, governments, financial institutions, large corporates, and international organizations gathered at the OECD Headquarters in Paris for a Roundtable entitled “*Financing SMEs in Global Value Chains*” (see Annex 2). Building upon an earlier BIAC-B20 Turkey event held in June 2015 and an accompanying BIAC-B20 Turkey publication<sup>67</sup> which recognized the fundamental role that SMEs play in adding value to products and services along global value chains (GVCs), participants in the 2016 Roundtable discussed steps that can be taken by different actors to improve SME finance in global markets. Thus the final chapter of this publication not only summarizes a number of priorities raised in earlier pages, but also offers a synthesis of the Roundtable’s conclusions. In doing so, we also consider the twenty emerging recommendations and related actions developed by the B20 China Taskforces (Annex 3).

Crucially, this publication and Roundtable emphasize the need for *continued attention* to this theme from one G20 Presidency to the next.

### Directions for G20 Leaders

Having identified a number of the cross-cutting themes, the publication and Roundtable take a deeper look into the three overarching priorities raised in our work last year (see below). Common to each of these areas is the need for governments in the current economy to *expand their focus from gatekeepers of stability towards enablers of growth and investment*.

**1. Focus on coordination and consultation in implementation, supported by independent impact assessment, in order to minimize cross-border and cross-policy inconsistencies and thereby minimize direct and indirect compliance costs for SMEs.**

In support of the G20 China Presidency’s core principle of continuity, the G20 Leaders’ Summit Communiqué should better recognize the critical need for broader economic impacts and cumulative effects of G20 policy and regulatory approaches – both domestically and across borders – within the nexus of financial stability, economic growth, and return on investment (Chapter 1). This is essential for building a competitive environment for companies of all sizes, and particularly SMEs, to conduct business across a global level playing field.

Consistent implementation plays an essential role in mitigating any unintended consequences of policies and regulations. Thus, an *international principles-based implementation process for financial regulation* should be introduced, possibly based on a Memorandum of Understanding (MoU) model for regulatory cooperation, which also provides opportunities for cross-border consultation and mutual recognition (Chapters 6, 7, and 8). A case in point is presented by the upcoming implementation of International Financial Reporting Standard

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<sup>67</sup> BIAC-B20 (2015) “Business Access to Global Value Chains and Financing SMEs”.

(IFRS) 9, whose impacts are significantly procyclical and thus further hinders economic growth. Its wide range of interpretations is making its implementation unnecessarily complex and lacking in transparency, and so defeating its very spirit at the time of its inception.

Additionally, there is a growing need for cross-policy *impact assessments* (ex-ante and ex-post) independent from those bodies setting the policies. We encourage the OECD to expand and strengthen its analysis and guidance in this field, building on the OECD Scoreboard on Financing SMEs and Entrepreneurs and the G20/OECD High-level Principles on SME Financing to encourage greater peer review and closer monitoring of regulatory reforms.

Furthermore, the G20 should better integrate the debate on tax and on SMEs. The participation of SMEs in GVCs depends in part on their ability to navigate the tangled web of international tax rules, including the G20 BEPS project. There is a need for the types of special provisions that are found in domestic tax systems – i.e. thresholds below which SMEs are exempt, and safe harbours for firms below a certain size – which should be extended internationally. Without such provisions, there is a real danger that tax could act as a barrier to the effective integration of SMEs into GVCs.

## **2. Raise SME access to finance and skills through an integrated financing approach, better leveraging on opportunities offered by digital and green finance.**

G20 Leaders should provide a predictable and enabling policy environment that allows and supports different actors to undertake voluntary approaches that *ensure seamless financing* to SMEs in GVCs – through an *integrated approach* along GVCs that combines diverse forms of fit-for-purpose finance. Such approaches should focus on raising the quality of products (Chapter 9, 11 and 12). Particular attention should also be devoted to encouraging *women and youth entrepreneurship*, where *better data* is needed to address the challenges these entrepreneurs face in markets.

Along these lines, a key step would entail making better use of tools and opportunities that are available, but not necessarily always fully exploited – such as leveraging the contributions of *long-term investors and equity finance* (Chapter 10), *cyber risk insurers*, and *fintech* firms, while also unlocking the opportunities offered by *green finance and green bonds* that can provide critical win-win opportunities for the health of both SMEs and our planet (Chapter 13).

Recognizing that SMEs need to possess the human talent (Chapter 15) to make the most of alternative sources of financing (often obtained through digital platforms), G20 Leaders should *support measures for investing in skills* – both financial and digital. Private sector initiatives to raise SME awareness about potential opportunities in global value chains should also be encouraged. More broadly, all stakeholders should recognize the importance of a risk-taking culture for entrepreneurship, in which failures are accepted in line with sound bankruptcy laws.

### **3. Maximize access to data and sharing of information through digital platforms (e.g. the proposed electronic World Trade Platform – eWTP) for a coordinated response to global challenges, including cyber security.**

Leveraging the use of digital technologies (Chapter 16 and 17), G20 Leaders should encourage the sharing of timely information between different actors (including SMEs, large corporates, and financial service providers) – both in and across borders. Continued efforts are therefore needed to *counter the forced localization of data* while also addressing legitimate security and privacy concerns.

Information exchange enhances the flows of financing, skills, and investment throughout GVCs. G20 Leaders should help pave the way for the creation of a *global online platform for data and information exchange*, such as the electronic World Trade Platform (eWTP) proposed during the B20 China Presidency. Existing platforms should be reviewed to raise awareness and strengthen coordination, in particular among private sector-led voluntary initiatives for financing and skills.

However, these opportunities also have material pitfalls, with *cyber security* related risks at the top of the list. The G20 Leaders' Summit Communiqué should recognize that only an integrated approach, coordinating efforts from businesses and governments, can offer an adequate response to such global challenges. Isolated national initiatives (as good as they can be) or layers of uncoordinated rules are likely to fail, intensifying the risks and arbitrage opportunities.

In this respect, great potential continues to be offered by the *complementary work of the SME Finance Forum and World SME Forum* which provide technical advice and support to SMEs from a financing supply and demand perspective respectively.

We recognize that *all actors should take action*. The B20, BIAC and participants in the Roundtable encourage the growing willingness of all relevant stakeholders to undertake their own distinct voluntary approaches and initiatives, in a coordinated manner, rather than only focusing on the measures to be taken by governments and public entities. Success hinges on G20 policy approaches that enable, and do not hinder, private sector-led approaches.

#### **Next steps**

On the road to the G20 Leaders' Summit in September 2016 in Hangzhou, we trust that this publication – and in particular the conclusions of the Roundtable held on 31 May 2016 – will *encourage the G20, and all actors concerned in markets, to undertake respective actions* that will support businesses of all sizes to participate in GVCs inside and across borders.

*We encourage G20 Sherpas to use this publication as a key point of reference in preparing the G20 Leaders' Summit Communiqué.* Looking beyond 2016, we encourage the German G20 and B20 Presidencies in 2017 to ensure continued attention to issues affecting business participation in GVCs, and SME financing in particular. The importance of *continuity* between G20 Presidencies cannot be overstated in order to ensure policy consistency for long-term financial stability, economic growth, and return on investment.



# ANNEXES



# Annex A – Biographies of authors

*Authors listed in order of chapters*



**Gianluca Riccio**, CFA, Vice-Chair of the BIAC Finance Task Force, and Member of B20 Financing Growth Task Force

Gianluca Riccio is Head of Strategy and Framework at Lloyds Banking Group in Commercial Banking Risk. Additionally, Gianluca is Vice-Chair of the BIAC (OECD) Finance Task Force and has been member for the last 2 years of the B20 Financing Growth Taskforce.

Gianluca has over 20 years' experience in the banking industry. His experience combines risk, business, regulatory and capital needs, and over time it has ranged from managing risk in different regions, economic environments (and crises) to leading a broad range of initiatives including modelling, pricing, capital and regulatory requirements, as well as business restructures and wider projects across the organization.

Gianluca graduated in Economics and holds a CFA and a MSc in Finance. He has various publications.

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**Jason Furman**, Chairman of the Council of Economic Advisers, President Obama's Chief Economist, and Member of the Cabinet, United States

Jason Furman was confirmed by the United States Senate on August 1, 2013 as the 28th Chairman of the Council of Economic Advisers. In this role, he serves as President Obama's Chief Economist and a Member of the Cabinet. Furman has served the President since the beginning of the Administration, previously holding the position of Principal Deputy Director of the National Economic Council and Assistant to the President. Immediately prior to the

Administration, Furman was Economic Policy Director for the President's campaign in 2008 and a member of the Presidential Transition Team.

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**Rintaro Tamaki**, Deputy Secretary-General, OECD

Mr. Rintaro Tamaki was appointed Deputy Secretary-General of the OECD on August 1, 2011. His portfolio includes the strategic direction of OECD policy on Environment, Financial and Enterprise Affairs & Anti-Corruption, Green Growth and Taxation along with representing the OECD at the Financial Stability Board meetings.

Prior to joining the OECD Mr. Tamaki, a Japanese national, was Vice-Minister of Finance for International Affairs at the Ministry of Finance, Government of Japan. During his prominent 35-year career at the Japanese Ministry of Finance, Mr. Tamaki has worked on various budget, taxation, international finance and development issues.



**Alexander Shokhin**, President, Russian Union of Industrialists and Entrepreneurs

Dr. Alexander Shokhin is the President of the Russian Union of Industrialists and Entrepreneurs (RSPP) since 2005. Previously he took the positions of Deputy Prime Minister of Russia (1991-1994, 1998), Minister of Labor, Minister of Economics, Chairman of the Russian Agency for International Cooperation and Development, Russian governor at the IMF and the World Bank (1991-1994), Deputy of the State Duma of the Russian Federation, First Vice Chairman of the State Duma (1994-2002). Dr. Shokhin was the B20 Chairman during Russian G20 presidency in 2013.

Dr. Shokhin graduated from the Economical Faculty of the Moscow State University. He has an academic degree of Doctor of Economics.

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**Salvatore Zecchini**, University of Rome “Tor Vergata”, and Former Chair of OECD Working Party on SMEs and Entrepreneurship

After economic studies at Columbia University (MBA) and Wharton School of Finance (PhD program), joined the economic research department of the central bank of Italy, where he became one of the directors and a consultant to the government on financial and economic integration. Once appointed as an Executive Director of the IMF, he dealt among others with the major financial crisis of the 80s. At the OECD, he was in turn Economic Counselor, Assistant Secretary General, Deputy SG and Director of the Center for Economies in Transition. Back in Italy, he acted as a consultant to the Government on public investment, aid to SMEs, credit guarantee schemes, industrial and energy policy, external trade promotion. Professor of international economic policy at University of Rome Tor Vergata. He was also President of GME (Italy’s power exchange) and Chair of the OECD WPSMEE . Currently, he is Vice-President of the UN ECE CECI in Geneva, Chair of the OECD Steering Group on SMEE Finance; and President of Assonebb, publisher of Bankpedia (Encyclopedia of Banking and Finance).

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**Tunç Uyanık**, Chief Executive, World SME Forum

Dr. Tunc Uyanik joined World SME Forum (WSF) as its CEO in November 2015, after being a key contributor to its founding. He was previously the Special Envoy and Chief Adviser to the President of TOBB and B20. He was also the Chair of the Turkish B20 Steering Committee.

Prior to this, Dr. Uyanik was the Director of the Financial and Private Sector Development Department in East Asia and Pacific Region at the World Bank, as well as the Director of the Financial Systems Global Practice. He was also co-chair of the Financial Sector Liaison Committee (FSLC) and chair of the World Bank’s Islamic finance working group.



**Matthew Gamser**, Chief Executive, SME Finance Forum

Matt Gamser has over 30 years of experience in international enterprise development, local economic development and finance.

Prior to joining the SME Finance Forum, Matt led IFC’s advisory work in increasing access to financial services in the East Asia-Pacific region. Matt has worked for governments and private businesses around the world to create an improved policy and regulatory environment for private-sector growth and poverty reduction. He has edited and authored several books and numerous journal articles.

Matt holds a BA and MA degrees from Harvard University, and an M.Sc and PhD from Sussex University (UK)

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**Kent Andrews**, Chair, BIAC Finance Task Force

Kent oversees the relationship between the bank and its primary regulator.

Kent’s diverse experience includes over 20 years in banking in both Canada and the US and over 10 years of regulatory experience as the Head of Large Bank Supervision at OSFI and as Advisor to the Financial Stability Board (FSB) in Basel, Switzerland. In his FSB role, Kent was the lead advisor on the “Too Big to Fail” project and co-authored the FSB report on Supervisory Intensity and Effectiveness. He is Chair of the BIAC Finance Task Force.

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**Kenneth E. Bentsen Jr.**, Chief Executive, Global Financial Markets Association (GFMA)

Mr. Bentsen is President and CEO of SIFMA. Mr. Bentsen is also the CEO of the Global Financial Markets Association (GFMA), SIFMA's global affiliate, and Chairman of Engage China, a coalition of 12 U.S. financial services trade associations united in support of high-level engagement with China.

Previously, Mr. Bentsen served as President, and earlier as the Executive Vice President of Public Policy and Advocacy for SIFMA, responsible for SIFMA's legal, regulatory, and legislative affairs and advocacy initiatives.



**William Perraudin**, Director, Risk Control Ltd.

William Perraudin is Director of Risk Control Limited, a specialist risk management consultancy and software firm. He is Adjunct Professor of Imperial College Business School where he was, in the past, Head of the Finance Group and Director of the Risk Management Laboratory. He holds degrees from Oxford, LSE and Harvard. As well as Imperial College, William has taught in the University of Cambridge and in Birkbeck College.

William also worked at the International Monetary Fund and as a City stockbroker. He was a Special Advisor to the Bank of England and as such was involved in the parameterisation of the Basel II capital charges for international banks.



**Fabio Gallia**, Chief Executive, Cassa Depositi e Prestiti

Fabio Gallia is CEO and General Manager of Cassa Depositi e Prestiti since July 2015.

In 2007 he became CEO of BNL and in 2012, Head of BNP Group in Italy. Previously, he held the posts of CEO at Banca di Roma and Fineco. Additionally, he was Chairman of Capitalia Group's Management Committee.

Mr Gallia graduated in Economics from the University of Turin in 1987. In 2013 he was appointed Knight of the National Order of the Legion of Honor of the French Republic and in 2015 Knight of Labor of the Italian Republic.

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## Confederation of British Industry

Across the UK, the CBI speaks on behalf of 190,000 businesses of all sizes and sectors. The CBI's corporate members together employ nearly 7 million people, about one third of private sector-employees. With offices in the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world. With over 50 years of experience, the CBI is the UK's most effective and influential business organisation.



**Mariano Bosch**, Co-founder & CEO ADECOAGRO

Adecoagro was founded in 2002 and is now a leading company in the production of food and renewable energy in South America. Present in Argentina, Brazil and Uruguay, its main activities include the production of grains, rice, dairy products, sugar, ethanol, energy and land transformation. Adecoagro is listed in NYSE by AGRO, with a market capitalization over \$1.3 billion USD.

Mariano (Argentinean, 46) has over 21 year of experience in agricultural development. He holds a degree in Agricultural Engineering from the University of Buenos Aires and is married with five children.



**Alejandro López Moriena**, Chief Sustainability Officer ADECOAGRO

Alejandro works in the company since inception. His responsibilities include developing and evaluating the most efficient, profitable and sustainable technologies. Definition of Sustainability corporate policy, its discussion at Board level and its coordination at operations are key assignments to him. Alejandro has a strong ability in educating and leading sustainable-based training programs. He bears especial dedication on helping IR team to educate and introduce shareholders into Agribusiness main concepts. Additionally, a fluid participation within the Business Development department makes this position an essential step of the company decision-making process.

Alejandro is 46 years old, married, Argentine and Italian citizen and Master in Agronomy by the University of Buenos Aires.

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**Hiroki Miyazato**, Global Chairman, Haitong Bank

Mr. Hiroki Miyazato (宮里啓暉) is currently Deputy General Manager of Haitong Securities Co., Ltd, mainly in charge of securities investment and trading, as well as Shanghai Pilot Free Trade Zone business. He is also the chairman of Haitong Bank S.A. He is the deputy chairman of China Securities Association OTC Committee, and member of China National “1000 Plan” (program of global experts).

He has around 20 years of working and management experience in banking and securities industry. Mr. Miyazato obtained a bachelor's degree in science from Fudan University in July 1986 and obtained a master's degree in biophysics and biochemistry from University of Tokyo in March 1993.

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**Jeffrey Owens**, Professor at the WU Vienna University of Economics and Business, and Director of the WU Global Tax Policy Centre at the Institute for Austrian and International Tax Law

Jeffrey Owens completed his doctoral work at Cambridge University in the United Kingdom in 1973. In addition to his economic degrees, he is a qualified accountant. He is now the Director of the WU Global Tax Policy Center at the Institute for Austrian and International Tax Law, WU (Vienna University of Economics and Business), In addition to his academic role Jeffrey is also the Senior Policy Advisor to the Global Vice Chair of Tax at EY, advisor to the

World Bank and UNCTAD and a number of regional tax administration organizations. He is also chair of the Singapore Management University – TA Center for Excellence in Taxation Research Committee and involved with a number of other NGOs. He has focused his attention on questions of tax policy and tax administration, with particular emphasis on international taxation and related domestic issues. His earlier work dealt with the development of international currency markets and the implications for monetary policies.



**Rosanna Choi FCCA**, Chair of ACCA Global Forum for SMEs, Association of Chartered Certified Accountants (ACCA)

Rosanna Choi is a partner of CWCC, Certified Public Accountants in Hong Kong.

She has been serving on ACCA Council (Global) since 2011. She has been the Chairperson of its Global Forum for SMEs since 2013.

Rosanna is also a board member of Social Ventures Hong Kong, a council member of Hong Kong Baptist University and the Deputy Chairman of its Finance Committee, a director of Hong Kong Cyberport Management Company Limited and the Chairperson of its Audit Committee. Rosanna is also a member of Hong Kong Government's Business Facilitation Advisory Committee and that of its Board of Inland Revenue.

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**Diane Wang**, Chief Executive Officer DHGate.com

Diane Wang is the Founder and CEO of DHgate.com, the first transactional B2B e-commerce marketplace in China. In 1999, Diane co-founded and served as CEO of Joyo.com, the first B2C transactional e-commerce platform in China. Joyo became the largest B2C marketplace in China, and was acquired by Amazon in 2004, becoming Amazon China.

Diane is Co-Chair of the ABAC SME Working Group; Co-Chair of the APEC Women Leadership Forum; the Chinese representative to the G20 Business Summit (B20), serving as the Co-Chair of the B20 SME Taskforce; and also the first Rotating Chairperson of the Entrepreneurs Committee of the China APEC SME Alliance.

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**José Manuel González-Páramo**, Member of the Board of Directors – Chief Officer, Global Economics, Regulation & Public Affairs, BBVA

He is Ph.D., M.Phil. and M.A. in Economics from Columbia University. He also holds a Ph.D. from Universidad Complutense. In 1988 he was appointed Professor of Economics at UCM and from September 2012 he is a Professor at IESE Business School. He was an economic adviser to various public and private institutions from 1985-1994: Banco de España (1989-94), the European Commission, the IMF and the World Bank Group. From 2004-12, he served as a member of the Executive Board of the European Central Bank (ECB). He was a member of the Governing Council of Bank of Spain (1994-04) and of its Executive Committee (1998-04).

In June 2013 he was appointed Executive Board member of BBVA. Among other responsibilities in the group, he is the Chief Officer, Global Economics, Regulation & Public Affairs, and the Chairman of its International Advisory Board.



**Juan Colombás**, Executive Director and Chief Risk Officer, Lloyds Banking Group

Juan has significant banking and risk management experience, having spent 30 years working in these fields in Spain, Portugal and the UK. He has served as the Group's Chief Risk Officer and as a member of the Group Executive Committee of Lloyds Banking Group since January 2011. He was appointed as a member of the Board of LBG in November 2013. Juan is also deputy Chairman of the International Financial Risk Institute.

Juan has a BSc in Industrial Chemical Engineering from the Universidad Politécnica de Madrid, a Financial Management degree from ICADE School of Business and Economics and an MBA from the Institute de Empresa Business School.

Juan was previously the Chief Risk Officer of Santander's UK business. Prior to this position, he held a number of senior risk, control and business management roles across the Corporate, Investment, Retail and Risk Divisions of the Santander Group.



**Laurence Morvan**, Managing Director, Office of the CEO, Accenture

Laurence Morvan is the Chief of Staff to Accenture Chairman and CEO Pierre Nanterme. She sponsors strategic initiatives on behalf of the CEO with a focus on thought leadership around digitalization of economies, change management, culture, and enterprise collaboration.

In her career, Laurence Morvan held a number of positions in investment banking and strategy consultancy. She is a visiting faculty at Sciences Po, a leading French business school.

She is the executive sponsor for Accenture's participation to the B20 as knowledge partner of the B20 China SME Development Taskforce and G20 Young Entrepreneurs Alliance.

She holds a MBA from the Wharton School of the University of Pennsylvania and a MSc in management from ESSEC Business School in Paris.

# Annex B – Agenda of Roundtable “Financing SMEs in Global Value Chains”, 31 May 2016

## Connecting the B20 Recommendations:

### ROUNDTABLE ON FINANCING SMES IN GLOBAL VALUE CHAINS

09h00 to 11h45, 31 May 2016, Room CC10, OECD Headquarters, 2 rue André Pascal, 75016 Paris

#### Agenda

This Roundtable builds upon the 2015 work BIAC undertook with the Turkish B20 and G20 Presidencies on SME financing (see video summary here). In contribution to B20 inputs to the G20 Leaders’ Summit in September 2016, the Roundtable will help to identify synergies across the various B20 Task Forces’ recommendations and specifically examine how they can **support the financing of SMEs in global markets in order to fuel investment and growth**. Business leaders and senior government representatives will discuss the opportunities and challenges associated with issues such as **digitalization and cyber security, innovation, financial inclusion, green finance, and financial regulation**. The discussions will be supported by a compilation of perspectives from leading thinkers (last year’s is available here).

#### 09.00-09.10 OPENING REMARKS

- **Phil O’Reilly**, BIAC Chairman
- **Yu Ping**, B20 China Sherpa
- **Tunç Uyanık**, Chief Executive, World SME Forum
- **Matthew Gamsler**, Chief Executive, SME Finance Forum

#### 09.10-09.20 SETTING THE SCENE: G20 & B20 PRIORITIES FOR SUSTAINABLE GROWTH AND INVESTMENT

- Gianluca Riccio, Event Moderator

#### 09.20-09.40 GLOBAL ECONOMY AND BUSINESS OUTLOOK

- **Rintaro Tamaki**, OECD Deputy Secretary General and Representative to the Financial Stability Board
- **Anabel Gonzalez**, Senior Director Trade & Competitiveness, World Bank Group, and Former Minister of Foreign Trade, Costa Rica

#### 09.40-10.30 B20 ACTIONS TO UNLOCK SME FINANCE IN AND ACROSS BORDERS: OPPORTUNITIES AND CHALLENGES

Format & Objective: Kick-off speakers will trigger a roundtable discussion on current and future B20 business-led actions to enhance financing for SMEs through digital platforms, improved data, financial technologies, appropriate skills, greener financing, and greater financial inclusion, while also mitigating associated challenges such as cyber risks and terrorism financing.

Moderator: **Erol Kiresepi**, Vice President of TISK, and CEO and Chairman of SantaFarma Pharmaceuticals

- **Göktekin Dinçerler**, Director of Turkven Private Equity, and Co-Chair of B20 SME Development Task Force
- **Laurence Morvan**, Managing Director, Office of the CEO, Accenture

- **Ad van der Poel**, Senior Vice President Financing Services, Basware
- **Brad Smith**, Chief International Officer, American Council of Life Insurers

## **10:30-11:30 G20 ACTIONS TO BUILD A POLICY AND REGULATORY AGENDA CONDUCIVE TO VALUE**

### **CHAIN FINANCE**

Format & Objective: Kick-off speakers will trigger a roundtable discussion identifying priorities for G20 actions to support financial stability through appropriate regulation while also fostering SME-led growth and investment. Discussions will focus on synergies and trade-offs associated with regulatory approaches, as well as the diversification of SME finance.

Moderator: **Matthew Gamser**, Chief Executive, SME Finance Forum

- **Katharina Spiess**, Co-Chair of G20 SME Finance Subgroup, and Deputy Head of Unit, German Federal Ministry for Economic Cooperation and Development
- **Alexander Shokhin**, President, Russian Union of Industrialists and Entrepreneurs
- **Hiroki Miyazato**, Global Chairman, Haitong Bank
- **Ramesh Mulye**, Strategic Advisor to the Confederation of Indian Industry, and Former Ambassador of India
- **Vasuki Shastry**, Global Head of Public Affairs and Sustainability, Standard Chartered

## **11:30-11:45 CONCLUSIONS AND B20 PRIORITIES**

- **Gianluca Riccio**, Event Moderator
- **Bernhard Welschke**, Secretary-General, BIAC

## Annex C – Methodology used in reviewing B20 Taskforces’ recommendations and actions

The Roundtable on Financing SMEs in Global Value Chains, held on 31 May 2016 at the OECD Headquarters in Paris, brought together representatives from several B20 Taskforces. This is because cross-cutting and integrated approaches are necessary to enhance the financing of growth in our economies.

Participants in the Roundtable were therefore presented with a room document by the Event Moderator, Mr. Gianluca Riccio, that mapped the emerging B20 Taskforces’ recommendations and actions (see matrix overleaf). Beyond simply listing the various recommendations, the document prompted readers to examine their commonalities, gaps, and interdependencies, in order to determine which actions could contribute to a truly coordinated G20 approach. This holistic overview helped participants to connect the dots and develop a synthesis. Additionally, the document encouraged participants to identify the recurring themes across the various Taskforces, and consider which actor(s) can endeavor to implement the various actions.

The matrix overleaf provides an adapted version of the room document used on 31 May. The importance of the matrix is not so much the “what” (i.e. which recommendations and actions), but rather the “how” (i.e. building a synthesized and coordinated approach). Therefore, without naming the specific B20 recommendations or actions, the purpose of this matrix is to encourage similar exercises in future at both B20 and G20 levels.

The matrix shows B20 Taskforces and related actions on the left-hand side of the table. The right-hand side of the table encourages readers to consider *who* can implement (tick) and/or support (s) the recommendations, and which are the recurring themes in the recommendations.











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