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## **Keynote Address by H.E CHEA SEREY**

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**at the Global SME Forum 2020**

**The role of digitization in promoting SMEs access to finance**

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Good morning excellencies, ladies and gentlemen! It is my great honor and privilege to be here at the Global SME Forum 2020. Today I am asked to reflect on the future of SMEs finance from a regulatory perspective.

As you all know, SME is considered a crucial sector for the economy, not only in developing and emerging economies, but also in advanced economies. The International Labour Organization, for instance, estimates that SMEs account for more than 60% of GDP in nearly all OECD countries.<sup>1</sup> Furthermore, in emerging economies, SMEs absorb 7 out of 10 jobs created according to the World Bank.<sup>2</sup>

Despite their significance to the economy, SMEs face almost the same challenges all over the world, including human resource constraints, increased competition, access to market and access to finance just to name some.

It would take a few sessions to discuss each challenge, but allow me to focus on access to finance, because ultimately without financing great ideas will only stay as ideas.

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<sup>1</sup> <https://www.ilo.org/infostories/en-GB/Stories/Employment/SMEs#engines>

<sup>2</sup> WB (n.d.). Small and medium enterprises (SME): Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital. Available at: [https://www.worldbank.org/en/topic/sme/finance#:~:text=Small%20and%20Medium%20Enterprises%20\(SMEs\)%20play%20a%20major%20role%20in,economies%2C%20particularly%20in%20developing%20countries.&text=They%20represent%20about%2090%25%20of,\(GDP\)%20in%20emerging%20economies.](https://www.worldbank.org/en/topic/sme/finance#:~:text=Small%20and%20Medium%20Enterprises%20(SMEs)%20play%20a%20major%20role%20in,economies%2C%20particularly%20in%20developing%20countries.&text=They%20represent%20about%2090%25%20of,(GDP)%20in%20emerging%20economies.)

Informality is often one of the biggest obstacles for SMEs to access formal financial services. Without proper legal identity, borrowings by SMEs are done under the name of the owners, backed by personal tangible assets. The ability to borrow is thus limited by the personal liability of the owners. Information asymmetry between the banks' credit officers and the SMEs' owners, is another major source of obstacle. Banks are intermediaries taking deposits from the general public and transform them into credits to productive projects in the economy. If a project is not creditworthy according to the assessment based on the available information, which in the case of SMEs is not easy to find, then it is very likely that the banks won't loan to that project, because the ultimate loser here would be the depositors and ultimately the financial system. Not coming in defense of banks, but understandably as a regulator, financial stability is our main mandate and priority. Here the question is how to address this information gap?

I believe that these two objectives can be achieved by leveraging on digitalization.

Let me start first on how we can benefit from digitalization in bringing SMEs to formal business entity. Registration of businesses is often tedious and time consuming. For SMEs it is even more difficult to comply given the nature of the business. In this regard, simplified online registration would greatly facilitate business registration. With the advancement in technology and artificial intelligence, the multiple data points and e-KYC capability registration and verification process could be done in a matter of seconds. The question is, even though it is easy to formalize why would SMEs want to subject themselves to regulatory burden. If tax incentives and other forms of government assistance are not there then why bother? I am not in a position to comment on fiscal policies, but using this information to help SMEs access to finance could give enough incentive for registration. In Cambodia, the Ministry of Industry, Technology and Innovation has already started the process of building online SMEs business registration through a mobile application. A discussion on linking the database to Credit Bureau Cambodia has also begun. If by registering SMEs can better identify themselves vis a vis financial institution, then it is a good start. But with digitalisation, the possibilities are endless.

Digitalization has narrowed information asymmetry gaps for SME financing. Within the last 2 decades the world has gathered more data points than the last 2 millennium combined. If used ethically, these data points combined with the advancement of technology and artificial intelligence can change our lifestyle altogether. As far as SMEs are concerned,



data collected from all available data sources can help close the gaps between the banks and the SMEs, provide better credit risk management tools for financial institutions. Credit scoring using traditional credit history data as well as non-traditional data such as payment history (including utilities payment) would enhance the accuracy of the score and help banks and financial institutions make better decisions. A few days ago, Credit Bureau Cambodia, a company that I sit on the board, organized a discussion with its members on digitalization of credit risk management, enabling financial institutions to proactively identify, measure, monitor and control credit risk at both individual and portfolio levels across all products. Speed and accuracy of the credit would be improved. In the period of the COVID-19 pandemic, such a tool became even more crucial for banks and financial institutions to promptly make decisions in order to ensure their own sustainability and the survival of SMEs by providing adequate liquidity support during this difficult time. This year, one of the NBC's main priorities is to ensure that banks and financial institutions have adequate liquidity themselves in order to support the private sector, especially SMEs. Strict regulation on building liquidity buffers during good times has proven to be beneficial during crisis times.

But SMEs can also improve their credit scoring by using technology. In Cambodia, a company called BANHJI, translating as BOOKKEEPING, provides free simplified accounting applications for SMEs. With consent, the company can use the aggregate data to better understand each particular industry's revenue stream and help individual SMEs to better see themselves in a bigger picture. In the future, such a company could also work with the credit bureau to help banks better understand SMEs by industry but also individually.

Once becoming part of the digital ecosystem, SMEs would not only be able to access finance but also access to bigger markets, domestic and international. Efficient and affordable cross-border payments and e-commerce platforms would also make regional/international markets more accessible. Trade financing, previously a complicated financial instrument reserved for big players, could be accessible to SMEs thanks to the existence of smart contracts made possible by Blockchain Technology.

However, although moving towards digitalization is seen as one of the key drivers for sustainable SMEs, there could be some challenges. Let me focus on 3 challenges that I think would be the most difficult to address in the short term. First, digital literacy amongst SMEs remains low for them to fully take advantage of digitalization. This requires appropriate

support from the public sector as well as a change of mindset from the SMEs' part. Lack of trust in the digital payment platform is often one of the reasons why e-commerce payments is done at delivery instead of online, putting the burden for SMEs already limited liquidity. Second, lack of trust is also extended to the bankers themselves. Bankers may not completely trust the decisioning made by the big data analytics. For example, we can't expect people to readily accept that a credit underwriting process that would normally takes weeks could be done in a few minutes. This change of mindset remains a challenge particularly for developing countries like Cambodia where things are moving so rapidly. Third, digitalisation requires digital infrastructure to be in place. It is almost an oxymoron, but without access to stable and affordable electricity and internet connection, digitalisation can only be a concept. The three challenges raised are what I believe the most sticky to address as changing of mindset and attitude toward technology is not something that can be done overnight. Furthermore, infrastructure investments deserve a dedicated forum on its own given the complexity and challenges many countries are facing.

Big challenges aside, let come back to what respective stakeholders can do individually. Here I would like to elaborate on what financial sector can do to help SMEs access to finance. Regulators should create an appropriate and conducive regulatory environment for the application of different technology innovation and encourage its usage without compromising on the safety and integrity of the technology on consumers and the financial sector as whole. Trust is hard to earn. Once something goes wrong it could take years to build it back. Regulators as individuals and as an organization should have an open mindset to new ideas and allow some safe experimental space. At the National Bank of Cambodia, we adopt the ***Observe, Learn and Execute!*** motto. Our approach toward regulating microfinance institutions by tier to avoid unnecessary regulatory burden while maintain some prudential standards, gradual tightening of e-wallet services providers allowing a the sector to mature and grow, creating one credit bureau that bring MFIs and Banks under one database allowing easier graduation from micro-borrowing to bank borrowing, introduction of the first national backbone payment system using Blockchain technology allowing interoperability between payments institutions in the country and create a smooth digital payment experience, are some of the examples of such openminded and pragmatic approach.

Beside banking sector, SMEs can also access lending from the capital markets. In this regards the Stock Exchange Commission Cambodia issues regulations creating a dedicated

section of SMEs listing allowing these enterprises to tapped on investors directly. The National of Cambodia is also, working to put in place regulation on crowdfunding and peer-to-peer lending opening more opportunities for SMEs to meet their funding needs.

I would like to conclude on a positive note: I believe in Every challenge present a hidden opportunity. With open mind anything is possible. Covid19 should be taken as opportunity to speed up the adoption of new technology change our mindset toward the way we do business or regulate.

Thank you for your attention!