# B20 SME DEVELOPMENT TASKFORCE POLICY PAPER

July 2016

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# Taskforce composition and working process

## B20 China Leadership

China Council for the Promotion of International Trade (CCPIT) has been designated by the Chinese government to lead the preparations for the B20 China events in 2016. After considering the success of previous B20 taskforces, liaising with the G20 members and affiliated business representatives and reviewing the statistics of three rounds of questionnaire surveys, the B20 2016 Host Committee has decided to establish five taskforces, namely Financing Growth, Trade and Investment, Infrastructure, SME Development and Employment taskforces, joined by a special forum on anti-corruption.

## B20 SME Development Taskforce

As one of the five taskforces of B20 China, the SME Development Taskforce was established under the chair Jack Ma, Executive Chairman of Alibaba Group. The co-chairs are (by alphabetical order) Mary Andringa - Chair of the Board of Vermeer Corporation, Jonathan K.S. Choi - Chairman of Sunwah Group, Göktekin Dinçerler - Director of Turkven Private Equity, Sunil Bharti Mittal - Chairman & CEO of Bharti Enterprises, Pierre Nanterme - Chairman & CEO of Accenture and Diane Wang - Founder & CEO of DHgate.com. Dongwei Shi, Vice President of Alibaba Group serves as a deputy to the chair Jack Ma.

The Taskforce received in-depth content and process support from Accenture as its Knowledge Partner. The World SME Forum is the Taskforce's Network Partner.

The SME Development Taskforce has 110 members, mostly senior executives from SME businesses, entrepreneurs and business associations. Taskforce membership is broadly representative of the G20 countries. The taskforce members met in person three times before the B20 Summit in September and exchanged ideas and materials between meetings.

## Policy Development Process

The work of the B20 China SME Development Taskforce builds on that of the B20 Turkey 2015, where the Taskforce then had identified key challenges to SME development and the G20 endorsed a number of recommendations as a consequence. In particular 2015 saw the creation of the World SME Forum (WSF)[1]. Building on last year's outcome together

[1] In its Antalya Summit Communiqué (15-16 November 2015), the G20 Leaders "welcome (…) the establishment of the private sector-led World SME Forum, a new initiative that will serve as a global body to facilitate the contributions of SMEs to growth and employment". Since its inception in November 2015, the WSF's mandate and work program have been focused on addressing three of the main impediments to SME development highlighted by the 2015 SME Taskforce: Access to Finance, Access to Markets and Global Value Chains, and Access to the Digital Economy. The WSF is tackling these issues with its Institutional Partners, founding members TOBB and ICC, and SME associations and Chambers of Commerce worldwide.

with G20 China priorities this year, the working group that includes the chair's deputy, co-chairs, Accenture as the knowledge partner and the WSF as the network partner generated a list of potential policy recommendations that Taskforce members prioritized and narrowed through a series of in-person and teleconference meetings throughout 2016.[2]

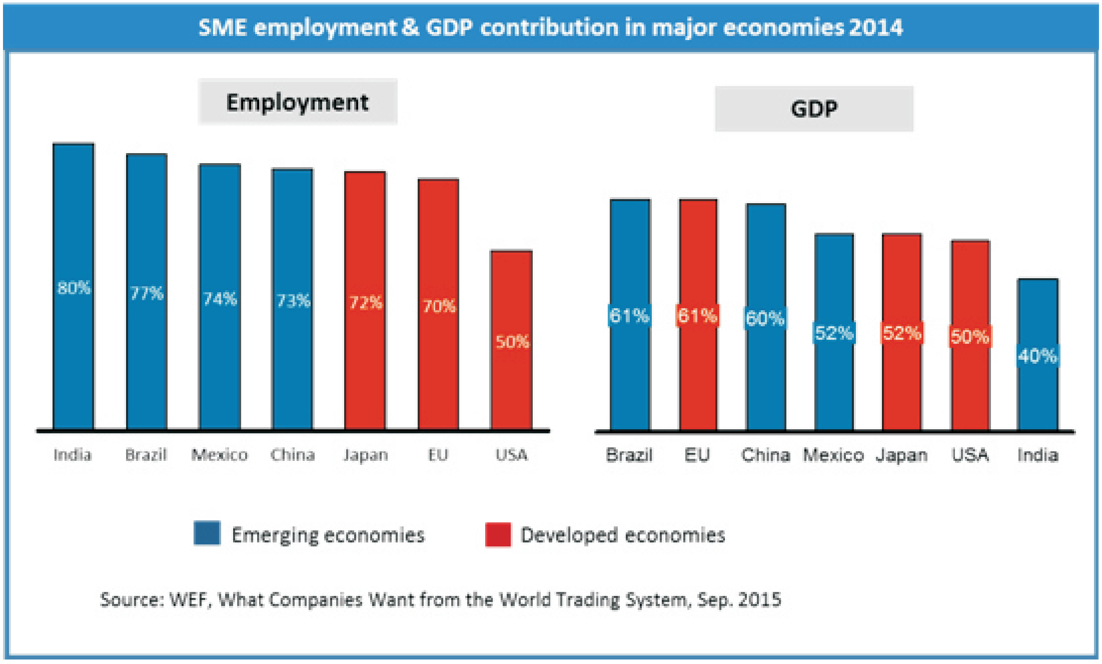
[2] The complete calendar is available at the end of the document.

# Summary of recommendations

## Context & challenges

### Context

SMEs play a critical role in G20 economies. In most countries, SMEs of all sizes contribute over 50% of GDP and three quarters of formal employment.




Historically, the development of SMEs has been constrained by:

- Lack of access to markets, in particular overseas markets and in specific segments such as government procurement.
- Limited access to production factors such as capital and finance, talent and skills, land and natural resources.
- Complexity, and therefore disproportionate cost and time to meet regulatory and sustainability requirements, industry and products standards.

These barriers are well known to policy makers. Digitalization is a game changer for policy makers to ease SMEs' access to markets, labor and capital, provide SME opportunities for innovation in products, services and business models and increase the efficiency of government operations. At the same time, stepped-up competition is increasing demand for a level playing field and support for SMEs to build up their technical, managerial and innovation capabilities.

G20 governments have made SME development a priority given their known contribution to GDP growth, employment, and innovation. The B20 China SME Development Taskforce urges G20 to continue its support for SME growth by ensuring that G20 countries leverage digitalization in their policies to address specifically the following challenges:

1. Inefficiencies inherent in cross border trade that impede SMEs' access to overseas markets. These inefficiencies include those due to the cost and complexity of operations, including weak use of, and access to cross border electronic trade.
2. SMEs' relative isolation from global value chains due to difficult access to relevant information about markets and supply chain stakeholders, and the difficulty to meet and reach certification for required international labor, environmental, social, product and quality standards.
3. SMEs' lack of access to timely and affordable finance due to the costs and risks for financial institutions to serve SMEs.
4. Complexity of regulatory environment for SMEs and lack of specific incentives to SME development.

## Recommendations

**1. Endorse the concept of Electronic World Trade Platform (eWTP), a private sector-led and all stakeholder initiative, for public-private dialogue to incubate eTrade rules and foster a more effective and efficient policy and business environment for cross border electronic trade (eTrade[1]) development.**

1.1 eWTP will promote public-private dialogue to improve the business environment and incubate future rules for cross border eTrade in some key areas, including simplification of regulations and standards, and harmonization of taxation.

1.2 eWTP will cooperate with international organizations such as the World Trade Organization (WTO) in order to prioritize eTrade development needs and enhance eTrade articles in the WTO's Trade Facilitation Agreement (TFA).

1.3 eWTP will aim to facilitate the development of eTrade and the digital economy through the development of eTrade infrastructure and adoption of best practices such as cross-border eTrade experiment zones to solve outstanding issues facing SMEs especially in developing countries.

**2. Develop coordinated capacity building and certification programs to facilitate the inclusion of SMEs in Global Value Chains (GVCs)**

2.1 G20 countries should set ambitious target for SMEs' inclusion in Regional and Global Value Chains and provide regular reporting of performance.

2.2 G20 countries should cooperate with the World Bank Group (WBG) and Multilateral Development Banks (MDBs), the Organization for Economic Co-operation and Development (OECD), the International Trade Centre (ITC), the United Nations Industrial Development Organization (UNIDO) and other relevant stakeholders such as WSF to better coordinate capacity building initiatives and priorities and step up funding for such programs.

[1] The scope of this new initiative will be cross border electronic trade, both B2B and B2C. In the text, the expression "eTrade" is used as a simplification to mention "cross border electronic trade".

**3. Facilitate SMEs' access to bank finance and alternative funding**

3.1 G20 should request assessments from relevant international organizations, of the impact of the existing and upcoming financial regulations on SMEs lending and the efficiency of credit reporting, scoring and rating systems, and report its findings to Basel Committee on Banking Supervision (BCBS) and Germany G20 2017.

3.2 G20 countries should facilitate the development of equity-based financing mechanisms for SMEs, such as support for business angels, seed capital, and venture capital, and encourage small-cap exchange.

3.3 G20 countries should facilitate the development of non-bank finance for SMEs, including FinTech, targeted trade and supply chain financing for SMEs. G20 should ask the WBG, MDBs, development finance institutions and others to facilitate the development of a framework for non-bank finance for SMEs in consultation with B20.

**4. Improve SMEs regulatory environment through a reduction of compliance costs and a significant improvement of access to public procurement markets, especially through the digitalization of government processes**

4.1 G20 countries should set measurable targets to simplify the regulatory process and alleviate SMEs' compliance burden, including significantly reducing the cost and complexity of compliance, and developing e-government priorities to digitalize national and international regulatory processes, and provide regular reporting of performance.

4.2 G20 countries should promote SMEs' participation in public procurement by simplifying the tender process and actively promoting increased market share of SMEs in public procurement.

# Recommendation 1: Endorse the concept of Electronic World Trade Platform (eWTP), a private sector-led and all stakeholder initiative, for public-private dialogue to incubate eTrade rules and foster a more effective and efficient policy and business environment for cross border electronic trade (eTrade) development

## Summary

| | |
|---|---|
| **Recommendation** | Endorse the concept of Electronic World Trade Platform (eWTP), a private sector-led and all stakeholder initiative, for public-private dialogue to incubate eTrade rules and foster a more effective and efficient policy and business environment for cross border electronic trade (eTrade) development |
| **Owner** | G20 countries |
| **Timing** | 2016 |
| **Value** | Increased participation of SMEs in eTrade |
| **KPI** | % of SMEs engaged directly in cross border electronic trade |
| **Current (Target)** | NA |

In this report, the expression of eTrade is used as a simplification to mention cross-border B2B and B2C electronic trade.

## Context

According to data collected by the ITC and published in the OECD and WTO ***Aid for Trade at a Glance 2015*** on SMEs' access to cross border trade, the major challenges they face include access to information about export opportunities, access to trade finance and logistics costs.

Conventional cross border trade relies on a number of intermediaries throughout the value chain, with each process of the value chain, such as sourcing, distribution, logistics, customs and payment, economically efficient for large transactions. As a consequence, it sets a high threshold of entry for SMEs. Given the typical size of SME cross border trade, the cost of small transactions becomes prohibitively high. For instance, Letters of Credit bear fixed costs which disproportionately increase the cost of drawing Letters of Credit for transactions of smaller values. In comparison, internet payment such as PayPal bears much lower fixed costs but higher variable costs designed for small transaction values. Another example is logistics costs. According to the ***World SME Competitiveness Outlook 2015*** of ITC, logistics costs for small businesses with annual revenue of less than US$5 million can be as high as 42% of revenue, while the equivalent for businesses with annual revenue of US$500 million and above is less than 15%.

Cross border eTrade is proving to be a game changer for SMEs to participate in GVCs. It creates direct access to international customers and highly efficient digitalized flows of products, data and money. According to the ***Global Cross Border B2C Electronic Trade Market Report*** jointly published by Accenture and the Alibaba Group, the value of the global cross border B2C electronic trade market will grow from US$230 billion in 2014 to US$994 billion in 2020, accounting for 29.3% of the global B2C electronic trade market and 13.9% of global consumer goods trade. Compounded growth rate for cross border electronic trade is projected to be 27.3% during the period of 2014 – 2020, twice that of the national electronic trade market, and more than 3 times the growth of global consumer goods trade.

Yet, there are a number of measures to be taken to boost the development of cross border eTrade, as, for instance, outlined in ITC's ***Bringing SMEs onto the E-Commerce Highway***:

- The development and enhancement of infrastructure, especially in developing economies, including Information Communications Technology (ICT) infrastructure such as broadband access, logistics infrastructure & services.
- The nurturing of favorable and harmonized regulatory environments, for instance in terms of customs, taxation, contract laws, consumer protection, rules for e-payment and express logistics.
- The development of SMEs' technical and managerial skills to accelerate SMEs' participation in e-trade.

## Value

Cross border eTrade will lower the threshold level for SMEs to participate in GVCs by easing access to customers and substantially reducing the trade costs for SMEs.

In addition, online payment tools should also provide accelerated payment with favorable impact on cash-flow and working capital for SMEs.

## Actions

| Ref | Action |
|---|---|
| 1.1 | eWTP will promote public-private dialogue to improve the business environment and incubate future rules for cross border eTrade in some key areas, including simplification of regulations and standards, and harmonization of taxation. |
| 1.2 | eWTP will cooperate with international organizations such as the World Trade Organization (WTO) in order to prioritize eTrade development needs and enhance eTrade articles in the WTO's Trade Facilitation Agreement (TFA). |
| 1.3 | eWTP will aim to facilitate the development of cross border eTrade and the digital economy through development of eTrade infrastructure and adoption of best practices such as cross-border eTrade experiment zones to solve outstanding issues facing SMEs especially in developing countries. |

Many institutions which previously focused on global trade are working to facilitate eTrade, such as WTO, the United Nations Conference on Trade and Development (UNCTAD), and the International Chamber of Commerce (ICC). The World Customs Organization (WCO) covered 'de minimis' and IT enabled customs operation in its Revised Kyoto Convention (RKC), and the Universal Postal Union is working on e-services development and eTrade enablement.

Yet, there is no forum to bring together these disparate efforts around eTrade, nor to bring together the perspectives of the diverse sets of private and public constituencies, e.g. SMEs, regulatory entities, vendors, consumer associations, industry associations, business intermediary organizations and enabling parties such as cities or logistics companies in order to:

- Assess existing regulations and best practices in terms of impact on SMEs' participation in eTrade.
- Incubate and advocate rules to foster eTrade.

B20 SME Development Taskforce members and international business organizations have confirmed the relevance of addressing eTrade issues now, and the need for more extensive consultation with business and understanding of business expertise and priorities in global policy making around eTrade. While recognizing the slightly unusual nature of a proposal for endorsement of a body in advance of its formal establishment and finalization of stakeholder and governance arrangements, the B20 notes the G20 itself did this in committing to launch the global infrastructure connectivity alliance initiative (February Finance Ministers communique) and commends to the G20 the benefit of acknowledging the need for such a dialogue mechanism to be created now. The G20's endorsement of the platform concept will provide greater certainty for the development of an all stakeholder approach.

Dependent on priorities to be confirmed through the development of the business plan, eWTP advocacy could include:

1. Assessing the social and economic value of eTrade in fostering SMEs' participation in GVCs;
2. Incubating rules for the development of eTrade in terms of industry standards and

rules, simplification of regulations and customs processes, evolution of consumer protection, lowering of tariffs, harmonization of taxation, development of internet and logistics infrastructure, facilitation of flow of goods, finance and data;

3. Identifying and sharing best practices, for instance around the development of efficient infrastructures such as cross-border eTrade hubs and experiment zones, smart logistics, credit payment, and technical assistance for emerging markets, with a view to influencing policy making and promoting inclusive eTrade.

**Case Study 1.1: Example of Advocacy Forum - Asia-Pacific Financial Forum: a public-private collaboration forum to develop integrated & robust financial markets in the region**

The Asia Pacific Financial Forum (APFF), a forum for public-private collaboration to develop robust and integrated financial markets in the region, was proposed by the APEC Business Advisory Council (ABAC) and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali. In its 2014 Interim Report to the APEC Finance Ministers, the APFF identified actions to advance development in key areas of financial markets that are critical to the region's economic aspirations.

The Forum engages governments and regulatory bodies, private sector and international organizations (IFIs, SSBs, others). It initiated a work program around two major clusters, i.e. the access to financial services of Micro, Small and Medium Enterprises (MSMEs), and development of deep, liquid and integrated financial markets. It submits reports to APEC Finance Ministers, recommending concrete undertakings across the broad financial sector that can yield tangible results within two or three years. The report was officially endorsed by the Ministers' conference.

**Case Study 1.2: Example of best practice assessment - Hangzhou Cross-border eTrade Comprehensive Experiment Zone**

In March 2015, China launched the China Hangzhou Cross-border eTrade Comprehensive Experiment Zone to develop cross-border eTrade expertise through innovative institutions, management and services. Over the past year since its inception, the Experiment Zone has put in place six systems covering information sharing, financial service, smart logistics, merchant's credit, statistics monitoring and risk control. They also have efficiently combined an online "single window" and an offline eTrade park. Despite overall anemic economic and trade growth in 2015, Hangzhou's cross-border eTrade increased significantly. Economic and foreign trade growth were above the provincial and national averages. The Experiment Zone has also strongly driven industrial modernization in Hangzhou and Zhejiang. It has promoted growth of the services' sector, such as logistics, finance, payment and customs clearance. The Hangzhou Experiment Zone opens up a new avenue for encouraging innovation and entrepreneurship.

eWTP will be open, transparent and not for profit. It will coordinate input from and work with the relevant SME-focused and trade-focused international organizations, governments and constituencies to assess and advocate conditions and incubate rules for the development of cross border eTrade, including both B2B and B2C.

eWTP will engage with all relevant stakeholders, including, but not limited to SMEs and the business sector, governments, SME-focused organizations such as the WSF, international organizations such as WTO, ITC, UNCTAD, ICC, WCO, industry associations, business intermediary organizations, consumer associations, academia, communities, etc. to seek partnerships, affiliations and funding.

CCPIT, in its capacity as B20 2016 Host, will consult with the G20 Trade and Investment Working Group (TIWG) and initiate engagement with all relevant stakeholders to shape the structure and governance options, business plan (including funding sources), priorities and next steps. It will also continue its efforts to promote discussion on eWTP within the framework of B20 2017 and report back to the G20 on those arrangements at the earlier of the relevant G20 ministerial meeting dealing with eTrade under the Germany G20 presidency and the G20 Leaders Summit in Hamburg in July 2017.

## KPI

- % of SMEs engaged directly in cross border eTrade

# Recommendation 2: Develop coordinated capacity building and certification programs to facilitate the inclusion of SMEs in Global Value Chains (GVCs)

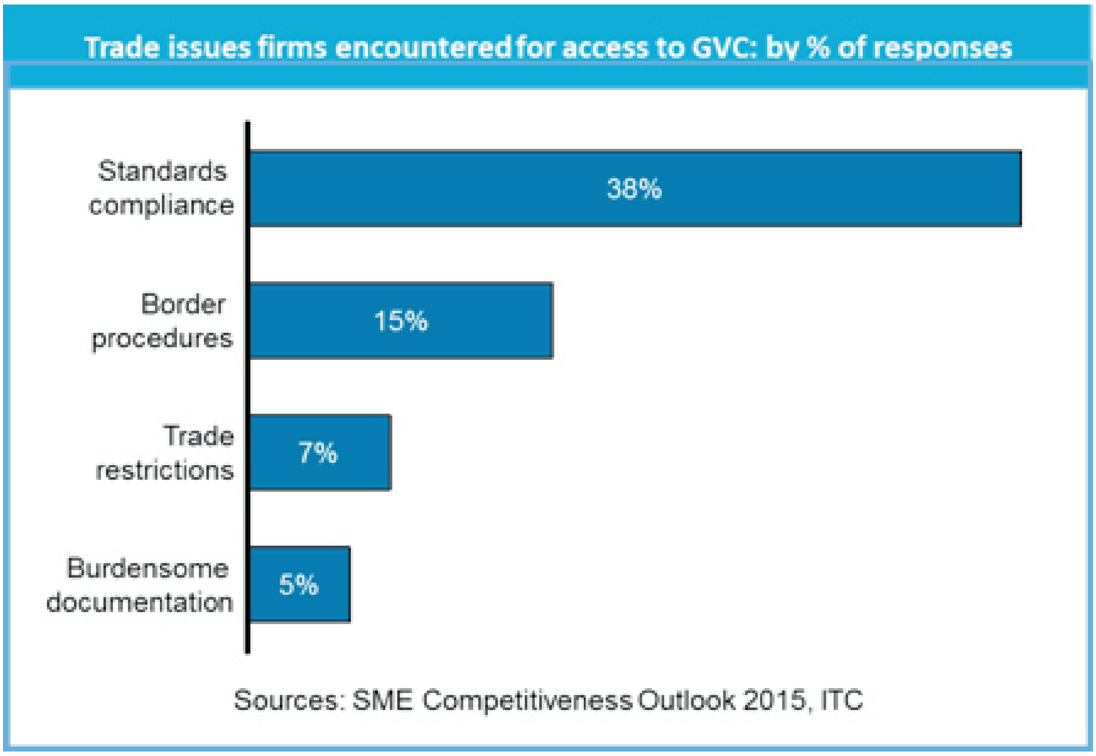
## Summary

| | |
|---|---|
| **Recommendation** | Develop coordinated capacity building and certification programs to facilitate the inclusion of SMEs in Global Value Chains (GVCs) |
| **Owner** | G20 countries |
| **Timing** | 2016 |
| **Value** | Enable SMEs' entry into global trade, upscale their technology, operations and management |
| **KPI** | % of SMEs accessing GVCs via direct and indirect export |
| **Current (Target)** | NA |

## Context

SMEs' share of export remains disproportionately less than their contribution to GDP. Bottlenecks hindering SMEs' access to markets include limited access to information and communication channels; hurdles in complying with international labor, social , environmental, quality standards and sustainability goals; and issues in gaining awareness, visibility and trust with prospective customers. At the broadest level, while the majority of national governments have created national databases of businesses for tax purposes, these systems are not designed with trade or marketing in mind. There is a significant opportunity for information flows from the SME community to become more effective and efficient.

Multinational corporations typically search for supplier-SMEs that possess key attributes such as management quality and good financial reporting practices. However, SMEs are frequently not aware of international, regional, or (sometimes even) national standards. Also, they lack the capacity and the resources to implement them: ***SME Competitiveness Outlook 2015*** of ITC report shows that the ability to conform to standards is the most important trade issue for SMEs' access to the GVCs, especially for SMEs in emerging economies.




While the ability to demonstrate conformity with standards and certifications is growing, and several International Organizations and NGOs have been actively supporting SMEs capacity building and certification / accreditation to facilitate their links to GVCs, accreditation remains a major challenge for SMEs. These include efforts by the WSF, the WBG, the OECD, the ITC, the UNIDO, or the ICC, just to mention some examples across different typologies of organizations. What has been missing is a coordinated action in this technical area, and funding to accelerate the interventions.

## Value

Certification will facilitate SMEs' collaboration with multinationals or larger exporters, which are also showing an increasing willingness to make this happen. SMEs would gain the opportunity to upgrade their technology capabilities, operations and management. Studies show that SMEs' access to GVCs not only expands their revenue streams but also helps to improve their productivity thanks to improved access to inputs and more advanced technology and management tools.

## Actions

| Ref | Action |
|---|---|
| 2.1 | G20 countries should set ambitious target and action plans for SMEs' inclusion in Regional and Global Value Chains and provide regular reporting of performance. |
| 2.2 | G20 countries should cooperate with the World Bank Group (WBG) and Multilateral Development Banks (MDBs), the Organization for Economic Co-operation and Development (OECD), the International Trade Centre (ITC), the United Nations Industrial Development Organization (UNIDO) and other relevant stakeholders such as WSF to better coordinate capacity building initiatives and priorities and step up funding for such programs. |

First, the lack of awareness and understanding of complicated standards systems, with national / regional / global dimensions poses a significant challenge. Second, SMEs may not have the time, funds, management and technical capacity to complete standards and certification processes. Compounding all of this, many developing countries lack the infrastructure such as testing, certification and accreditation facilities that would facilitate SMEs compliance with international standards. In a nutshell, to gain entry into GVCs, SMEs need an enabling environment and technical support to help them participate in GVCs.

### Case Study 2.1: WSF SME capacity development about standards & certification

Following last year's B20 recommendations, and coherently with the business plan presented to G20 Ministers last year, WSF has started discussions with all relevant agencies to identify areas of collaboration both in laying out a unifying framework, and facilitating interactions at country level to foster SME linkages to GVCs. The WSF work program in 2015 includes:

Phase 1: Assess the extent of SME awareness issue. The WSF will produce a report on the extent of the Standards and Certification awareness problem among SMEs

Phase 2: Develop a WSF certification program: this will entail studying issues that hurdle SME linkages with GVCs, help prioritize and sort out standards and certification types relevant to SME integration with GVCs, and identify a certification process that will attract SMEs to become part of global or regional value chains

Phase 3: Develop a Global GVC matching program via a multi-party electronic platform to link SMEs to GVCs

Sources: ***World SME Forum Project Concept Note***

## Case Study 2.2: Capacity Building and Certification – WEConnect International

WEConnect International is an international NGO that helps build the capacity of women-owned businesses to scale their operations and sell successfully to major global corporate members with over US$1 trillion in annual purchasing power. WEConnect International certifies women-owned businesses that want to sell to corporation with supplier diversity and inclusion goals. This assessment includes compliance with universal standards. Approved companies are recognized through a certification - the Certified Women's Business Enterprise (WBE) – and by major global corporations through this proprietary Seal of Certification Process. Finally, WEConnect International proactively facilitates matchmaking between SMEs and major global corporations in over 100 countries.

Launched in 2009, WEConnect international has helped corporate members track over US$20 billion in spend with women-owned businesses, demonstrating tangible and sustainable business opportunity.

Sources: US Chamber of Commerce Foundation, ***"From Millions to Billions: Scaling Up Women's Empowerment Globally"*** (2014). Rockefeller Foundation, ***"A Winning Formula for Advancing Women-Owned Businesses in New Markets."*** (2015)

## Case Study 2.3: Cross-Border E-Commerce Training (CBET) program

CBET is designed for global SMEs to receive practical, professional, scalable and localized cross-border e-commerce knowledge and insights, as well as entrepreneurship guidance on a wide range of startup concepts in the new global value chain. Initiated by ABAC China in 2013, the CBET offline workshops have realized capacity building for more than 1000 SMEs in Asia Pacific region and around the world.

Achievement:

- The 1st CBET workshop was launched in Dongguan, China in 2014, with joint support from multiple APEC economies. In the workshop, SMEs business owners from 10 economies participated in group discussions and field visits.
- The 2nd CBET workshop took place in Brunei in 2015, with attendees of different industries from Brunei, Indonesia, Philippines, Malaysia, United States, Mainland China, Hong Kong, etc., sharing their experience on leveraging cross- border e-commerce to enable access to international markets and finance. In the same year, the first CBET eLearning course demo video was kicked-off online.
- The 3rd CBET workshop was held in Papua New Guinea in April, 2016, with over 800 SMEs from different sectors of the country in attendance. In the same year, collaborating with Wenzhou-Kean University, CBET eLearning will have its online video courses ready to spread.

Sources: ***CBET Program Introduction, DHgate***

While progress has been made, to further this agenda it is crucial to obtain further support by G20 countries, in terms of commitment and collaboration by G20 trade and industry ministries, partnerships with Chambers of Commerce, and continued high level policy focus, by requiring implementing organizations to report back on progress during the next G20 meetings. To ensure the commitment, we recommend to G20 countries that they set ambitious targets and action plans for enhancing SMEs' inclusion in GVCs, and publish progress reports regularly, advancing the capacity to measure participation of SMEs in GVCs.

## KPI

- % of SMEs accessing GVCs via direct and indirect export (source: ITC)

# Recommendation 3: Facilitate SMEs' access to bank finance and alternative funding

## Summary

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|---|---|
| **Recommendation** | Facilitate SMEs' access to bank finance and alternative funding |
| **Owner** | G20 countries |
| **Timing** | 2016 |
| **Value** | Increased growth and job creation by SMEs |
| **KPI** | % of growth of bank loans to SMEs;<br>% of SMEs financing their fixed assets and working capital with non-banking finance |
| **Current (Target)** | NA |

## Context

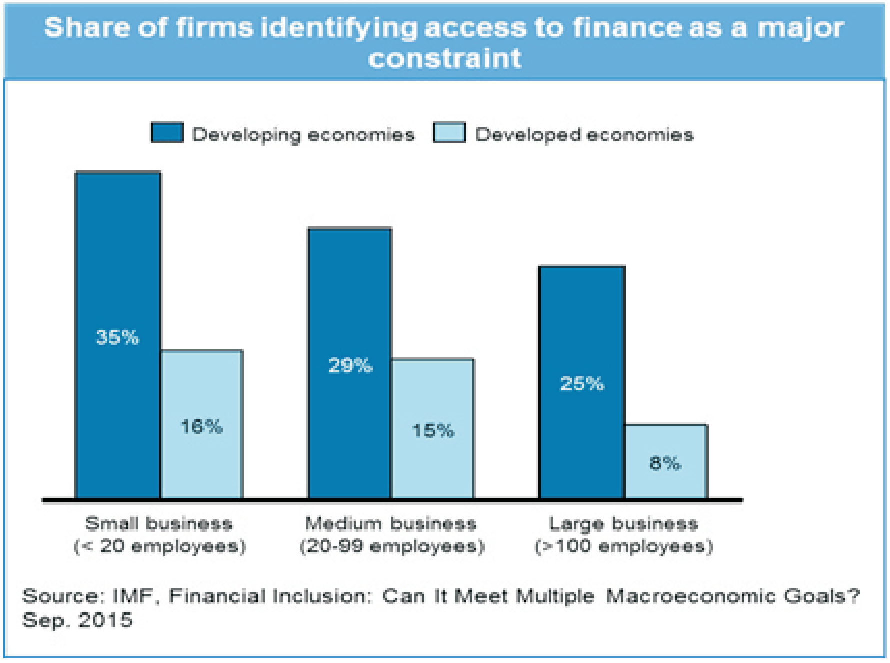
### Bank finance

Access to finance has been one of the major challenges for the development and growth of SMEs. This long-standing problem has been magnified during the recent global financial crisis. SMEs are usually the first to be negatively impacted by financial crises as they are perceived to be a riskier investment and are generally rated/scored below large corporations. Scarce and expensive finance for SMEs can to a large extent be attributed to the information gap about SMEs, and whether real or perceived, an unfavorable global financial/banking regulatory framework that favors stability over increasing lending to SMEs. Debt financing for SMEs and entrepreneurs remains constrained in most countries, with higher interest rates, shorter loan tenures, and tougher collateral requirements. According to the International Finance Corporation of the WBG, total unmet demand for micro and SME credit is estimated at about US$3.2-3.9 trillion globally. Additionally, analysis by the Asian Development Bank, the IFC and others suggests that there is a significant shortfall in trade finance globally, with unmet demand estimated to be in the range of US$1.1 trillion annually, the majority of it in Asia, and much of it impacting SMEs and developing economies.[1]

Overall, higher risks of default, a lack of credit information and data, and a deficit of adequate assets as credit guarantees restrain financial institutions from serving the finance needs of SMEs. SMEs' lack of access to finance is worse in developing economies: less sophisticated financial systems, less mature credit assessment systems and financial institutions focus more on "low hanging fruit" and the more lucrative business of serving large companies.

[1] Source: ICC, 2014

There has been a lot of discussion on these issues from both sides of the spectrum without achieving a satisfactory agreement on the causes, and identifying corrective measures.




Therefore, there is a strong need for an SME specific assessment on the impact of unintended consequences of global financial regulatory measures since the crisis. We recommend to G20 that they request Financial Stability Board (FSB) as part of its annual review to assess and develop recommendations to facilitate bank lending for SMEs, including assessment of financial regulations' impact on SME and assessment of credit scoring and rating mechanisms.

**Non-Bank finance**

Alternative sources of finance such as equity funding are still limited and volatile, and vary considerably across countries. With the exception of a few countries such as the United States, the market is not providing the scale of equity investment needed to support the development of the SME sector. For SMEs, raising equity capital may be significantly more expensive than accessing debt finance. Also, SMEs often face a problem of underpricing in capital markets. This often results in SMEs being frequently under-capitalized.

## Value

The relevance of access to finance and development of financial systems as a key determinant of SME productivity has been widely documented. Empirical evidence supports the hypothesis that access to finance is a determinant of SME productivity[1]. This

[1] Inter-American Development Bank report ***"Support to SMEs and Financial Access/Supervision Sector Framework Document",*** June 2014

takes place through: (i) promoting the efficient allocation of savings to the most productive investments, improving the allocation of factors in the economy; (ii) enabling the financing of companies to allow them to invest in technology, develop research projects and innovation, and access new markets; and (iii) raising the incentives for companies to invest in the long term growth of the company.

Equity finance is key for companies that seek long-term investment, to sustain innovation, value creation and growth. Equity financing is especially relevant for companies that have a high risk-return profile, such as new, innovative and high growth firms. In addition to promoting bank finance that is mainstay for SMEs, alternative lenders can provide SMEs with funding where banks are unwilling or unable to do so. This can lead to an overall increase in equity and debt finance. This is supported by a Nesta survey on alternative finance in the UK that found that 33% of SME borrowers from marketplace lending platforms were convinced that they would have been unlikely to get funds elsewhere.[1]

## Actions

| Ref | Action |
|---|---|
| 3.1 | G20 should request assessments from relevant international organizations, of the impact of the existing and upcoming financial regulations on SMEs lending and the efficiency of credit reporting, scoring and rating systems, and report its findings to Basel Committee on Banking Supervision (BCBS) and the Germany G20 2017. |
| 3.2 | G20 countries should facilitate the development of equity-based financing mechanisms for SMEs, such as support for business angels, seed capital, and venture capital, and encourage small-cap exchange. |
| 3.3 | G20 countries should facilitate the development of non-bank finance for SMEs, including FinTech, targeted trade and supply chain financing for SMEs. G20 should ask the WBG, MDBs, development finance institutions and others to facilitate the development of a framework for non-bank finance for SMEs in consultation with B20. |

### Bank finance

Assessments shall address issues related to the effects of the implementation of Basel III on SMEs' access to Bank Lending, the impacts of Global Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements initiatives and other financial regulations which impact SMEs lending. A review should include views/evidence from all relevant parties in this discussion, the global and national regulatory bodies and the IFIs such as Basel Committee, FSB, IMF, WBG, and established groups such as G20 working groups, IIF, as well as organizations representing SMEs such as the WSF.

To be specific, we recommend to G20 that they act on the following:

1. The G20 should ensure that BCBS does not create unintended cliff effects on SMEs' cost of funding, depending on whether they are independent, or subsidiaries of

[1] ***The UK Alternative Finance Industry Report 2014,*** Nesta and University of Cambridge

medium or large groups.

2. The G20 should ensure that new BCBS rules do not unduly penalize cost of funding for specialized financing needs such as collateralized finance, trade finance, export finance, hedging, back-up lines etc. as these financial services are not easily substitutable with market based finance.

3. The G20 should ensure that the development of SMEs' access to capital markets is not hampered by other regulatory measures that constrain the use of low liquidity assets by market makers and investors. Risk taking on low liquidity assets should be encouraged as it provides diversification and helps long term investments.

**Non-bank finance**

Alternative sources of funding for SMEs are limited and volatile. Equity financing was severely affected by the financial crisis. Despite recovery, with the exception of few countries like the United States, the market is not providing the scale of equity investment needed to support the development of the SME sector.

With the advent of the digital economy, financial innovations such as peer-to-peer lending and equity crowdfunding have been growing in popularity. More broadly, financial and internet technology is providing core innovations to significantly increase SMEs' access to finance along several financial products, both equity and debt. Taken together, employing these solutions can have enormous positive effects on an SME's balance sheet situation, leaving small businesses with more cash, improved working capital management, and more stable and secure funding. For instance, global marketplace lending accounted for US$60 billion to US$70 billion in outstanding loan volumes in 2014[1]. Growth rates are high and are expected to increase in the future. According to estimates, 60-80 countries now have at least one marketplace platform operating or lined up to launch within the next six months.

**Case Study 3.1: Select examples of FinTech/Marketplace lending solutions**

Over the past few years, a number of financial products and business models – powered by technology – have emerged, catering to the needs of small businesses. Taken together, employing these solutions can have enormous positive effects on an SME's balance sheet situation, leaving small businesses with more cash, improved working capital management, and more stable and secure funding.

**P2P Lending:** Business models differ across different platforms: Balance sheet lenders, such as Kabbage, lend money from their own capital base and take credit risk themselves. In a narrower sense, marketplace lenders facilitate connections between lenders and borrowers but do not take on credit risk. Other companies, such as OnDeck, follow a hybrid model.

**Merchant Finance:** For online sellers or merchants accepting cashless payments at the point of sales, financing by online marketplaces and payment processers offers a compelling value proposition. As the share of online sales will increase, so will the number of merchants being

[1] Source: WEF, 2015. A Morgan Stanley 2015 report estimates marketplace lending at US$24 billion in outstanding loan volumes in 2014, aggregating for four countries alone namely, the US, China, the UK and Australia. Since this segment is new and evolving, estimates from different sources vary substantially.

able to access funds from Amazon, PayPal, Alibaba, Rakuten, Square Capital and other such providers.

**Trade Finance:** Increasingly, non-bank players, such as TradeShift and TradeRiver, develop innovative solutions to address existing needs. Documentation remains a critical part of trade and export finance but is increasingly conducted online.

**Equity funding:** In addition to debt funding, online crowdfunding platforms such as Seedrs, KickStarter, Crowdcube or OurCrowd connect companies and investors that want to contribute to the funding of small businesses or start-ups by providing some form of equity capital.

**Invoice financing:** Online receivables finance companies now allow small businesses to monetize outstanding receivables quickly and easily. Since the application is processed mostly automatically, payment can be received almost instantly. FinTech companies such as MarketInvoice and Platform Black (based in the UK), Fundbox (United States), NoviCap (Spain-centric) and Finexkap (France) have seen significant growth over the last few years.

**Supply chain financing:** Supply chain finance in FinTech is still a niche yet growing market. Given the vast number of application cases, the number of products is expanding and moving to other markets outside the United States. One example is for SMEs to benefit from cheaper cost of working capital leveraging the higher credit worthiness of their large customers. Supplier relationships are strengthened too. They can use the same integrated platform they use for e-invoicing For example: Taulia model of dynamic discounting.

Source: World Economic Forum report ***"The Future of FinTech: A Paradigm Shift in Small Business Finance",*** Oct 2015

However, growth of these alternative financing platforms is partly constrained by regulatory environments that are not yet fully adapted. Platforms in many jurisdictions have initially started to operate in a "grey area", given that dedicated marketplace lending legislation was not yet in place. Currently, the global regulatory landscape for marketplace lending is highly fragmented.

| Model | Marketplace Lending Regulation | Select G20 countrie |
|---|---|---|
| Dedicated platform status | Platforms need approval by regulator, based on a dedicated legal status | UK, US, China (upcoming) |
| Banking regulation | Platforms are mainly regulated as banks and need a banking license to operate | France, Germany, Italy |
| Exempt/undefined | Platforms are either exempted from banking regulation or status remains undefined | Brazil, South Korea |
| Intermediary regulation | Platforms are regulated as financial intermediary of payment provider | Australia, Argentina, Canada |
| Source: Grant Thornton 2015, World Economic Forum 2015 | | |

Actions to consider within the development of a framework for non-bank finance for SMEs may include the following non exhaustive list of actions:

1. Initiatives to develop equity and long-term finance can be at a national or regional level and can include: targeted tax incentives to stimulate the development of venture capitalist funds across the SME development lifecycle (from seed funds to growth funds); fostering the development of global business angels' networks; encouraging long-term investments by high network individuals, family trusts, insurance companies, pension funds, and other endowments; performing regulatory review to encourage small-cap exchange and exchange window development more suited to SMEs. For alternative financing platforms to realize their full potential, the coherent action of several parties is required. Governments can remove barriers and provide direct support to help their national FinTech industries to blossom, while ensuring important risk control and adequate investor protection (The B20 Financing Growth Taskforce has made recommendations as to appropriate approach to FinTech regulations). In the case of marketplace lending platforms, it might be desirable to look at best practices in the interest of SMEs and how these benefits can be expanded. Additionally, to foster the growth of an international industry and to limit regulatory arbitrage, the potential for further harmonization of regulation and standards should be investigated.

2. Banks would be more willing and able to extend credit if they had access to information on SMEs. Internet-based eTrade platforms (such as DHgate.com) hold real-time SME transactional data and trade records, and partnering with banks benefits both parties (such as DHgate's strategic cooperation agreement with China Construction Bank on microloan initiative). G20 governments can incentivize such collaboration between banks and eTrade/FinTech marketplaces which can be win-win for both partners, especially in services like trade and supply chain financing.

3. The diversification of financial instruments available to SMEs will demand even greater levels of financial literacy for SME executives to leverage these options, which will require G20 countries to step up support to awareness and educational programs. Improved coordination between initiatives across the SME financing ecosystem, including academia, accelerators, chambers of commerce, banks, government agencies and regulators, as per the EU Invest Horizon program, can facilitate SMEs access to relevant resources.

## KPI

- % of growth of bank loans to SMEs (source: OECD)
- % of SMEs financing their fixed assets and working capital with non-banking finance (source: IFC)

## Recommendation 4: Improve SMEs regulatory environment through a reduction of compliance costs and a significant improvement of access to public procurement markets, especially through the digitalization of Government processes

### Summary

| | |
|---|---|
| **Recommendation** | Improve SMEs regulatory environment through a reduction of compliance costs and a significant improvement of access to public procurement markets, especially through the digitalization of Government processes |
| **Owner** | G20 countries |
| **Timing** | 2016 |
| **Value** | Reduced compliance costs and effort freeing resources to be invested in innovation and value creation<br>SMEs are able to win more public procurement contracts |
| **KPI** | Time spent dealing with the requirements of government regulations (% of management time);<br>% of digitalization of government procurement processes;<br>% of SMEs won public contract in past 12 months |
| **Current (Target)** | NA |

### Context

Throughout their life cycle of start, growth and liquidation, SMEs need to interact with different regulatory authorities, which is time and money consuming. WBG reports have highlighted improvements in regulatory frameworks, but also a significant room for improvement. While many countries have focused on making it easy to start a business, it is the whole corporate lifecycle that needs to be addressed. At the same time, due to size and resources, SMEs have relatively higher compliance costs. Compliance costs are proportionally 10 to 30 times greater for SMEs than for larger businesses.

E-government initiatives that provide online and often one-stop access to governments' services and compliance requirements across government agencies have been widely adopted in developed economies to simplify operations, optimize efficiency and reduce costs. However, emerging economies are further behind in the use of the internet to streamline compliance with business regulation. Their scores on the WBG index can be 50 per cent or even lower than developed economies.

In addition, SMEs often lack adequate access to public procurement markets, a significant market in most countries. This is due to poor visibility of opportunities, lack of understanding of procedures, weight of bureaucracy, documentation and guarantee requirements, an overall lack of transparency in the procurement process, and a lack of specific incentives for local content.

## Value

The streamlining of regulatory compliance processes including through digitalization, will help reduce costs for SMEs and free up resources that can be invested in innovation and value creation.

Increased access to government procurement presents a significant opportunity for SMEs, given it accounts for an average 15% or more of a country's GDP.

## Actions

| Ref | Action |
| --- | --- |
| 4.1 | G20 countries should set measurable targets to simplify the regulatory process and alleviate SMEs' compliance burden, including significantly reducing the cost and complexity of compliance, and developing e-government priorities to digitalize national and international regulatory processes, and provide regular reporting of performance. |
| 4.2 | G20 countries should promote SMEs' participation in public procurement by simplifying the tender process and actively promoting increased market share of SMEs in public procurement. |

A favorable regulatory environment will help boost SMEs' growth, therefore their contribution to the national economy and inclusiveness. A business-friendly regulatory environment is not about no regulation, but a streamlined and cost-efficient compliance process, on one hand leveraging digitalization to rethink government processes and facilitate a simpler SME interface through the application of the 'Once-only' principle across public administrations; on the other hand carrying systematic SME compatibility test for new regulations. SMEs' disproportionately high compliance cost can be attributed to their limited size and resources to manage complex regulatory processes. Simplified regulation and compliance costs for SMEs in addition to lower related fees are required to support the growth of SMEs.

Government can facilitate SME growth by opening up the government procurement market and facilitating SMEs' participation. Potential measures, based on policies pursued by the EU in this field, include, lowering the threshold of market entry especially in terms of size, streamlining the procurement process, setting aside a portion of total procurement value dedicated to SME suppliers, splitting bids into smaller lots to facilitate SMEs' or local participation, and encouraging joint bidding, etc.

## Case Study 4.1: Regulatory Tiering for Accounting and Auditing in Singapore

In October 2014, Singapore adopted the most ambitious revision of the Companies Act since it was enacted in 1967. The wide-ranging reform is expected to reduce the regulatory burden and compliance costs, provide greater flexibility for companies, and improve corporate governance. It will bring benefits to various stakeholder groups, including SMEs, which will benefit from a new audit exemption regime.

Under the new regime, SMEs stand to benefit if they qualify under a new, broader set of criteria for exemption from statutory audit. To qualify as a "small" company, a company must fulfill at least two of the following three criteria:

- Total revenue of not more than SGD $10 million.
- Total assets of not more than SGD $10 million.
- Total number of employees of not more than 50.

The intention is to reduce the regulatory burden on small and medium companies and move further towards a risk-based approach. According to ACRA, approximately 10% of companies or about 25,000 will enjoy exemption from audit and lower costs of compliance with the Companies Act, with total cost savings in the order of SGD $3,000 per company.

Sources: **APEC, *Regulatory Reform: Case Studies on Improving the Business Environment for SMEs***

## Case Study 4.2: One Stop e-Government for SMEs in State capital of Düsseldorf, Germany

In Düsseldorf, about 99% of the enterprises or 38,000 have less than 500 employees and can be considered as small or medium-sized enterprises. The objective of the state capital of Düsseldorf is to make the city even more attractive for such enterprises in terms of their long-term competitiveness. This is to be achieved by improving visibility of public procurement opportunities and making the services of the city even easier to access for enterprises through an e-Government One-Stop and bundled services.

Sources: ***One Stop eGovernment for Small and Medium-Sized Enterprises (SME): A Strategic Approach and Case Study to Implement the EU Services Directive***

## KPI

- Time spent dealing with the requirements of government regulations (% of management time) (source: WBG)
- % of digitalization of government procurement processes
- % of SMEs won public contract in past 12 months (source: WBG)

# Taskforce schedule and distribution of members

## Schedule of meetings

| # | Date | Location | Theme |
|---|---|---|---|
| 1 | 23 Jan 2016 | Beijing | Seek input on initial topics & recommendations |
| 2 | 3 Feb 2016 | Teleconference | Summarize key themes & list of recommendations |
| 3 | 17 Apr 2016 | Washington D.C. | Share approved 1st draft & additional content<br>Gain input for 2nd draft of policy paper |
| 4 | 12 May 2016 | Teleconference | Review 2nd draft and seek final wording inputs |
| 5 | 31 May 2016 | Paris | Gain input on overall B20 paper summarized recommendations |
| 6 | 21 June 2016 | Teleconference | Share advocacy plans till Sept 2016 and what is needed from taskforce members |
| 7 | 3-4 Sept 2016 | Hangzhou | B20 Summit |

## Distribution of members

| Country | No. | Country | No. | Country | No. |
|---|---|---|---|---|---|
| Argentina | 1 | India | 6 | Saudi Arabia | 1 |
| Australia | 2 | Indonesia | 0 | South Africa | 1 |
| Brazil | 0 | Italy | 3 | Turkey | 8 |
| Canada | 4 | Japan | 4 | United Kingdom | 8 |

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|---|---|---|---|---|---|
| China | 29 | Mexico | 2 | United States | 11 |
| France | 9 | Republic of Korea | 1 | European Union | 7 |
| Germany | 2 | Russia | 3 | Others | 8 |
| Total | 110 | | | | |

## Taskforce members

| Last Name | First Name | Position | Organization | Country |
|---|---|---|---|---|
| **Chair** | | | | |
| Ma | Jack | Executive Chairman | Alibaba Group | China |
| **Co-chairs** | | | | |
| Andringa | Mary | Chair of the Board | Vermeer Corporation | The United States |
| Choi | Jonathan K.S. | Chairman | Sunwah Group | China |
| Dinçerler | Göktekin | Director | Turkven Private Equity | Turkey |
| Mittal | Sunil Bharti | Chairman & CEO | Bharti Enterprises | India |
| Nanterme | Pierre | Chairman & CEO | Accenture PLC | France |
| Wang | Diane | Founder & CEO | DHgate.com | China |
| **Working group** | | | | |
| Shi | Dongwei | Vice President for Public and Government Affairs | Alibaba Group | China |
| Zhang | Yu | Senior Manager, Internati-onal Government Affairs | Alibaba Group | China |
| Ouyang | Cheng | Senior Advisor | Alibaba Group | China |

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|---|---|---|---|---|
| Pau | Jason | Senior Director (International), Office of the Chairman | Alibaba Group | China |
| Wang | Beckie | PR Manager | Alibaba Group | China |
| Xu | Jing | Manager of International Government Affairs | Alibaba Group | China |
| Gu | Xiaofeng | Vice Director of Group Affairs | Alibaba Group | China |
| Hintermann | Francis | Global managing director | Accenture PLC | France |
| Morvan | Laurence | CEO office managing director | Accenture PLC | France |
| Vazirani | Madhu | Thought leadership principle director | Accenture PLC | France |
| Chen | Hongyi | Managing Director | Accenture PLC | France |
| Guo | Li | Thought leadership research senior principal | Accenture PLC | France |
| Li | Wenjia | Consultant | Accenture PLC | France |
| Xu | Tian | Deputy policy director, Liaison officer of SME development taskforce | B20 China | China |
| Huang | Luodan | Assistant to liaison officer | B20 China | China |
| Sethi | Vinita | Vice-President, Chairman's office | Bharti Enterprises | India |
| Singh | Himar | Senior Manager, Chairman’s Office | Bharti Enterprises | India |
| Xia | Bing | Senior Advisor | DHgate.com | China |
| Zhang | Wei | PR Director | DHgate.com | China |

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|---|---|---|---|---|
| Hardy | Jeffrey | Director, ICC G20 CEO advisory group | ICC | France |
| Foster | Catherine | Manager, Office of the Secretary General | ICC | France |
| He | Jun | Division Director | Institute of Industrial Economics, Chinese Academy of Social Sciences | China |
| Huang | Yanghua | Associate Professor | Institute of Industrial Economics, Chinese Academy of Social Sciences | China |
| Bouwkamp | Daryl | Senior International Business Development Director | Vermeer Corporation | The United States |
| Rafferty | Colm Michael | Vice President Asia Pacific / Chair of Vermeer China Ltd. | Vermeer Corporation | The United States |
| Uyanik | Tahsin Tunç | CEO | World SME Forum | Turkey |
| Kumcu | Berna Ozsar | Secretary-General | World SME Forum | Turkey |
| Devan | Janamitra | Senior Advisor | World SME Forum | Turkey |
| Negri | Stefano | Associate Director | World SME Forum | Turkey |
| **Members** | | | | |
| Abalkhail | Waleed | Chairman & Managing Director | TradeKey Co. | Kingdom of Saudi Arabia |
| Abruzzini | Arnaldo | CEO | Eurochambers | EU |
| Akagi | Takeshi | General manager, International Division | The Japan Chamber of Commerce and Industry | Japan |
| Alexander | Donna | President & CEO | Advoxum Global Strategies | The United States |
| Argüden | Yilmaz | Chairman | ARGE Consulting | Turkey |

| | | | | |
|---|---|---|---|---|
| Arthur | Nigel | Senior Vice President | eNotus International Inc. | Singapore |
| Bartels | Joachim | Managing Director | Business Information Industry Association | China |
| Bergevin | Christiane | Board Director | Yamana Gold | Canada |
| Biber | Deborah | Chief Executive | Pacific Basin Economic Council | China |
| Burger-Scheidlin | Maximilian | Executive Director | ICC Austria International Chamber of Commerce | Austria |
| Calzadilla-Sarmiento | Bernardo | Director, Department of Trade, Investment and Innovation | United Nations Industrial Development Organization | Austria |
| Cheese-Wright | David | President and CEO of Walmart International | Walmart | The United States |
| Chen | Yuqing | Vice President of Dahua / GM of Overseas Sales Center | Zhejiang Dahua Technology Co., Ltd | China |
| Chew | James | Global Head, Regulatory Policy | HSBC Bank Plc | The United Kingdom |
| Chou | William | China VC Program Leader | Deloitte | The United States |
| Chu | Victor Lap-Lik | Chairman & CEO | First Eastern (Holdings) Limited | China |
| Dai | Lizhong | Chairman | Sansure Biotech Inc. | China |
| Davis | Nicholas | Head of Society and Innovation | World Economic Forum | Switzerland |
| Donelli | Luca G. | CFO | Donelli | Italy |
| Dosoretz | Victor | DIRECTOR - President of Import& Export Commission | Argentina Chamber of Commerce | Argentina |
| Druckman | Paul | Chief Executive Officer | International Integrated Reporting Council | The United Kingdom |

| | | | | |
|---|---|---|---|---|
| EA | Louis-Victor | Founder & MD | Winstone | China |
| Evans | Alexander | President and COO | Energy Transportation Group | The United States |
| Fenn | Kevin | CEO | OsellDinoDirect China Limited | China |
| Fu | Yanbin | Chairman of the Board | 898 Investment & Holdings Co. Ltd | China |
| Gamser | Matthew | CEO | SME Finance Forum/International Finance Corp | The United States |
| George | Ligi | Chairman | Madras Suspensions Ltd. | India |
| Gould | Charles | Director-General | The International Co-operative Alliance | Belgium |
| Gregoire | Jean-Louis | Managing Director | Citizen Entrepreneurs | France |
| Grzywa | Przemyslaw | President of EU delegation to G20 YEA | European Confederation of Young Entrepreneurs YES for Europe | Belgium |
| Harada | Takeo | Representative & CEO | Institute for International Strategy and Information Analysis, Inc.(IISIA) | Japan |
| Horowitz | Brook | CEO | IBLF Global | The United Kingdom |
| Hu | Jianhua | Deputy General Manager | China Merchants Group | China |
| Hua | Guichao | President | Inventronics (Hangzhou), Inc. | China |
| Huang | Chenhong | President of the Great China region | Dell Inc. | The United States |
| Hurel | Francois | President | Union des Auto-Entrepreneurs | France |
| Ilisulu | Basak | Secretary General | Young Businessmen Association of Turkey | Turkey |
| Ilkorur | Korkmaz | Director of the Board | SoktasTekstil AS | Turkey |
| Jafar | Badr | CEO | Crescent Petroleum | UAE |
| Jonow | Nicklas | Partner | Pacific Consulting Group (Asia) Limited | China |

| | | | | |
|---|---|---|---|---|
| Kirchert | Daniel | COO | Future Mobility Corporation Ltd. | China |
| Knott | Uta | Senior Manager | BDI | Germany |
| Kobayashi | Tsuneyuki | Secretary General | ICC (International Chamber of Commerce) Japan | Japan |
| Koreen | Miriam | Deputy Director, Centre for Entrepreneur-ship, SMEs and Local Development | OECD | France |
| Kuentz | Olivier | CEO | Myfrenchpharma | France |
| Langley | Kevin | President US Delegation | G20 YEA | The United States |
| Lanxade | Thibault | Vice President | MEDEF | France |
| Lee | Gary | Vice President | Tee YihJia Food Manufacturing Pte Ltd | Singapore |
| Lee | Michael | CEO | CreBiz Factory | Republic of Korea |
| Lee | V. Paul | Managing Partner | Vanedge Capital Partners | Canada |
| Leow | Lawrence | Chairman of the SBF-led SME Committee | Singapore Business Federation | Singapore |
| Ley-Lopez | Sergio | Chairman, Asia Pacific Business Section | Mexican Business Council for Foreign Trade, Investment and Technology | Mexico |
| Liddle | Jeremy | Co-Founder & CEO | CapitalPitch | Australia |
| Liu | Shaoxi | Chairman | Yihua Enterprise (Group) Co.,Ltd. | China |
| Lorincze | Péter | Executive Board Vice Chair | BIAC | France |
| Machenaud | Hervé | Chairman | PFCE/EDF | France |
| Mackieson | Craig | Managing Director | First Guardian Capital | Australia |

| | | | | |
|---|---|---|---|---|
| Mahapatra | Raghunath | Head - Strategy | Welspun Renewables Energy Pvt. Ltd. | India |
| Malaket | Alexander R | President | OPUS Advisory Services International Inc. | Canada |
| Millan | Mauricio | Vice president | CorazaInternacional | Mexico |
| Morthania | Sushma | Founder & Director General | India SME Forum | India |
| Motau | Innocentia | President | Young Entrepreneur South Africa | South Africa |
| Nakajima | Koh | Senior Manager | KEIDANREN (Japan Business Federation) | Japan |
| Numan | Numan | MD | 212 | Turkey |
| Nursalim | Cherie | Vice Chairman | GITI Group | Singapore |
| Pandey | Leena | Director | Confederation of Indian Industry | India |
| Piera | Eva | Global Head of Public Affairs | BBVA | Spain |
| Qiang | Evan | Assistant to the Chairman | KuangchiScence Ltd. | China |
| Reoik | Alexey | President | Delovaya Rossiya | Russia |
| Reviglio della Venaria | Edoardo | Chief Economist | Cassa Depositi e Prestiti S.p.A. | Italy |
| Roversi | Sara | Founder and Chief of Social Mission | You Can Group | Italy |
| Saab | Fadi | Chairman | Trans Capital Finance | The United Kingdom |
| Safonkina | Elizaveta | Expert of the International Relations Department | Russian Union of Industrialists and Entrepreneurs | Russia |

| | | | | |
|---|---|---|---|---|
| Sahbaz | Ussal | Content Leader | B20 Turkey | Turkey |
| Saigal | Ashok | Managing Director | Frontier Technologies Pvt Ltd | India |
| Salloum | Samuel Mehdi | Co-Chairman | GCEL | Switzerland |
| SansPowell | Xavier-Lluis | Deputy Head of Government Affairs, Head of European Affairs | European Union Chamber of Commerce in China | China |
| Sedov | Victor | President, CEO | CFE, LLC | Russia |
| Seval | Yasar Selim | Board Member and General Manager | Octet Express | Turkey |
| Sheng | Jia | CEO | Net Credit Finance Group | China |
| Tian | Ning | President | Panshi Information Technology Co.,Ltd | China |
| Tilley | Charles | Chief Executive | CIMA | The United Kingdom |
| Tilmes | Klaus | Director | World Bank Group | The United States |
| Treier | Volker | Deputy CEO | The Association of German Chambers of Industry and Commerce | Germany |
| Turner | Mark | Partner | Livingbridge EP LLP | The United Kingdom |
| Vazquez | Elizabeth | CEO and Co-Founder | WEConnect International | The United States |
| Vernotti | Claudia | Director | ChinaEU | Belgium |
| Viezzoli | Claudio | Managing Director | European Bank for Reconstruction and Development | The United Kingdom |
| Waidmann | Brian | Chief of Staff | American Council of Life Insurers (ACLI) | The United States |
| Wang | Hanglun | Chairman | Yage International Building Material (HK) Ltd. | China |
| Watson | Richard | Head of Capital Markets | Association for Financial Markets in Europe | The United Kingdom |

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|---|---|---|---|---|
| Wilson | Fiona | Vice President, Corporate and Public Affairs | Futurpreneur Canada | Canada |
| Xia | Hua | Chairman | EVE Group | China |
| Xu | Jinghong | Chairman | Tsinghua Holdings Co., Ltd. | China |
| Zhou | Chongwang | Chairman | Hunan Tea Group Co.,Ltd. | China |
| Zhou | Guohui | Chairman & CEO | Eternal Asia Supply China Management Ltd. | China |
| Zhou | Haijiang | President | Hongdou Group Co.,Ltd. | China |
| Zhao | Quan | Trade Policy Advisor | International Trade Centre | Switzerland |
| Zhao | John Huan | Chairman of the Board | Hony Capital | China |

## Special thanks

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