The Digitization of Payments and Innovation in SME Finance

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Agenda

1. SMEs and Digital Payments: The Opportunity
2. Strategies and Examples:
   - New Business Models
   - New Products & Services
   - New Market Initiatives
3. Outlook
SMEs: Largely Operating in a Cash Economy

- 44M Retail SMEs
- $19T Revenues
- 63% Cash

Source: World Bank/IFC
Base of the Pyramid Lacks Access to Digital Payments

- Large chains
- Medium sized retailers with multiple tills
- Small grocery stores managed by family members
- Micro-entrepreneurs selling goods in a marketplace or on a mobile cart

Most Accept Electronic Payments

Most Lack Electronic Payments Acceptance Capability

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Mastercard Commitment to Advance Financial Inclusion

500M+ People
40M+ SMEs

From 2015 - 2020
Why Does Cash Exist?

- To pay employees and suppliers
- Perceived to be simple and free
- No technical training needed

Limited Access to Digital Payment Records

Limited Access to Finance
How to Grow Penetration of Digital Payments

New Business Models

New Products & Services

New Market Initiatives

Access and Usage of Digital Payments

Need to work together
Small Business Finance-to-Order Model

100K+ kiosks in Kenya

99% cash on hand
How it Works

ORDER

CREDIT

APPROVAL

DELIVERY
Digitizing to Finance the Supply Chain

Kiosks: More sales

CPGs: Better sales and stock info

Distributors: More efficient working capital

Banks: New SME customers
Mastercard and IFC: Creating a Multiplier Effect Model

• Risk-Share Facility for Issuers: Joint $250 million facility to license smaller issuers in emerging markets

• Financing Facility for Acceptance Development: Insurance loss coverage and line of credit for acquirers and payment facilitators
Europe: Turning Mobile Phones into Acceptance Products

Hardware-based
In markets across Europe

Software-based
Pilots in the UK and Poland

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Enabling Mobile QR Acceptance

- Removes need for terminal infrastructure
- Consumers scan QR code with banking app
- Store builds up sales history to qualify for credit
- Live across Asia and Africa, launching soon in Europe
Global Markets are Becoming More Urban

MORE THAN 1/2 of the world’s population lives in cities

CASH
Too slow to handle demand

LESS FRICTION
Through electronic payments

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Mexico-City: Building Acceptance and Usage through Mass-Transit

- Payroll and social benefits
- Transit open-loop payments
- SMEs around transit hubs
- Builds and reinforces habits
Germany: Building Acceptance and Usage through Restaurants

- 27% are cash-only
- 31% of consumers avoid cash-only restaurants
- 44% of restaurants say that cards grow their revenues
- Partnering with POS company to raise market awareness
Towards a Complete View of SMEs

- Government
- Retail
- Wholesaler
- Staff
Q&A