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How disruption is accelerating inclusive innovation across the global supply chain

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A three pillar approach to achieving a more sustainable and inclusive future for global trade

The new normal for SMEs

Now, just over 12 months since the outbreak of COVID-19, the profound health, societal, and economic impact of the global pandemic has caused disruption across almost all sectors and fundamentally changed the way we go about our daily lives. Organisations of all sizes continue to adapt to containment measures in order to keep people safe, stay connected with customers and suppliers, and ultimately stay in business.

The impact on the global supply chain has been especially profound for small- and medium-sized enterprises (SMEs). SMEs are the backbone of the global economy, representing 90 percent of all businesses and accounting for 50 percent of the global workforce, yet within the first three months of the pandemic one-in-five small businesses were forced to close their doors. The lives and livelihoods of entrepreneurs, family businesses, and small firms have been plunged into uncertainty.

As financial services were forced to scale back funding due to unprecedented economic uncertainty and risk, SMEs faced significant liquidity challenges exacerbating the existing $1.5 trillion funding gap. The International Finance Corporation now estimates a trade financing shortfall of between $4 trillion and $5 trillion.

This trade financing gap will inevitably be felt the most in emerging and developing markets. Women-owned businesses, which already only access less than 10 percent of commercial financing globally, will suffer as well. These factors, if not addressed, could drive us further away from achieving the United Nations Sustainable Development Goals than ever before.

An accelerator for change

There is a silver lining; now more than ever we are experiencing a collaborative awakening where organisations are coming together to address the vulnerabilities and inequalities exacerbated through the global pandemic. In furtherance to its commitment to sustainable and inclusive growth, last year Mastercard announced that it was doubling down on its goal to include another 500 million people in the digital economy by 2025, by expanding that commitment to one billion. This comes with a direct focus on providing 25 million female entrepreneurs with solutions that will help them to grow their business. In addition, our recent pledge to reach net zero emissions by 2050 by focusing on the decarbonisation of operations will be bolstered by efforts through our supply chains.

Over recent months we have seen digital acceleration, from a regulatory, technological, and political perspective. Our opportunity now is to collectively move forward with a commitment to making the digital economy work for everyone, everywhere – ensuring that organisations of all sizes not only survive the crisis, but emerge stronger than before.

Investing in partnerships and tools that support the following three pillars will accelerate a more sustainable new normal for participants across the global trade ecosystem and help us move away from siloed systems, paper-based transactions, and finance gaps.

1. Digitisation

With necessitated remote working and social distancing measures becoming the norm, we have witnessed accelerated efforts to eliminate legacy paper-based resources. Together with DP World Mastercard recently launched a Trade Card in the Dominican Republic aimed at enabling cargo owners and small businesses to pay for their freight-related costs more efficiently, enhancing their ability to participate in global trade. Such initiatives help accelerate digital transformation and provide cargo owners and SMEs with better access to responsible credit, while digitisation of operations removes paper-work burden and keeps port staff safer in adherence to virus containment efforts.

Mastercard has also invested in blockchain capabilities to facilitate greater trust across the global supply chain. Working with fresh produce providers, including Australia-based Fresh Supply Co, we can now track the flow of goods and link to payment. By providing greater transparency over shipment and delivery, early payment of goods and earlier access to financing in the supply chain life cycle is facilitated.

Technology can help realise efficiencies and enhance confidence for global trade, but it must be inclusive and remove barriers rather than inadvertently create more. We need tools and insights such as Mastercard's Digital Doors that support entrepreneurs and small businesses, helping them to get online while offering protection from digital threats and relevant insights to make informed choices.

2. Financing

SMEs consistently find it the hardest to secure funding, while tier-one firms have far greater access to capital. It's a situation highlighted over the last 12 months, where SME suppliers with working capital constraints have struggled to keep the lights on. Moving forward, there needs to be collaborative effort to create innovative new lending pathways that ensure fairer access to finance throughout the whole global value chain. This means going beyond the first tier and allowing even the smallest of businesses to diversify and grow. Technological advancements, from blockchain, open banking to data insights mean that now more than ever we have tools and resources available to increase lending access for SMEs and reduce risk for financers. Open-banking advancements, such as Mastercard's capabilities with Finicity, can facilitate creation of a "digital credit passport" for SMEs, and as a result, safeguard a greater choice of affordable financial services and ultimately enable enhanced operational models to better support the whole supply chain.

3. Data insights

COVID-19 emphasised the importance of having comprehensive real-time data, along with the latest technology and analytic tools to leverage it – which takes a collaborative effort.

According to the Asia Development Bank (ADB), insufficient information in credit applications results in 17 percent of rejections for credit applications by SMEs. A historic reliance on audited financial statements as the basis for credit decisioning excludes SMEs and is no longer enough at a time when we realise that creditworthiness can change drastically in a short time frame.

Recently Mastercard formed a multi-stakeholder alliance with ADB to create technology solutions to drive greater digital efficiency across the retail supply chain in Asia and increase wholesalers' access to credit. By leveraging supply chain data from N-Frnds, SGeBIZ's digital procure-2-pay platform and partnering with Finastra and its Trade Bank customers, Mastercard is automating access to working capital finance by increasing the digital data available to assess and evaluate creditworthiness for SMEs.

Better access to data allows us to shift away from antiquated scoring models and dynamic data at a wider variety of data points is changing the way we assess risk for the better. Solutions like open banking provide access to real-time supply chain data, while AI tools provide better insights into the state of a business.

Collective Responsibility

History will remember 2020 as the year that international trade fundamentally changed. It's our collective opportunity to ensure that the next 12 months are marked as a period of inclusive and sustainable innovation. Using technology, insights, and partnerships to accelerate digitisation and address legacy inequalities and vulnerabilities for SMEs will build a more resilient future for trade. The responsibility to enact this transformation does not lie with any one player, it will take collective and collaborative action from lenders and financial institutions, alongside sound policy and regulation. The public and private sectors must come together to enable a faster and more efficient shift towards digitisation for SMEs across the global supply chain and by doing so make the digital economy work for everyone, everywhere in the new normal we have the responsibility to curate.