WORLD BANK GROUP

FIRST and Job Creation: SME Finance, Women Entrepreneurs, and FCV Countries

The Financial Sector Reform and Strengthening Initiative (FIRST) 2.0 agenda recognizes that financial sector development is not merely an end in itself, but rather a means to support the development of the real economy, including employment generation. FIRST's priorities include targeted support for financial sector institutions, products, services, and regulations that promote inclusive, private-sector-led growth and job creation. Specific areas of support include small and medium enterprise (SME) finance, youth and women's entrepreneurship, and countries characterized by fragility, conflict and violence (FCV).

SME Finance

SMEs account for about half of employment and over half of new jobs created in emerging economies. However, SMEs face a number of challenges in accessing finance. SME credit markets are afflicted by market failures and imperfections, including information asymmetries, inadequacy of collateral accepted by lenders, high transaction costs for small loans, and perceptions of high risk. In emerging markets, over half of formal SMEs are either unserved or underserved by financial institutions, and informal SMEs have even less access. The total estimated credit gap is US$1 trillion per year. On average, SMEs are less productive than larger firms, in part because of their lower access to and higher cost of credit.

Since 2002, FIRST has supported numerous initiatives to bring innovative and sustainable financing to SMEs. For instance, FIRST technical assistance has strengthened regulatory and supervisory frameworks for banks and non-bank financial institutions. As a result, they offer credit at affordable rates for start-ups and expansion of small businesses.

FIRST and the World Bank have also led an initiative to strengthen the public-private partnership of governments and lending institutions through the development of the Principles for Public Credit Guarantees for SMEs, which has become the global benchmark for such guarantee schemes (CGSs). CGSs expand SME finance by providing partial guarantees to lenders in case of default by borrowers, while being less distortionary than direct government lending programs. With FIRST's support, these public CGSs are growing in developing countries, extending their outreach to underserved clients such as start-ups, women and youth entrepreneurs, and innovative industries.

FIRST also supports TA for secured transactions, that is, the use of moveable property such as equipment, inventory, and accounts receivable as collateral to secure loans. FIRST TA includes improving the legal framework to expand the types of legally recognized forms of collateral and to clarify the legal rights of lenders and borrowers in such transactions. In addition, FIRST supports the strengthening of the registration system for such collateral. Since many SMEs do not own land (the most commonly accepted collateral by banks), expanding the types of property that can be used as collateral significantly enhances SME access to credit.

Women Entrepreneurs and Gender Equality

Gender equality in financial access and inclusion is critical to economic development and job growth. However, reforms in the financial sector enabling

environment are often not attuned to the barriers faced by women to access and/or fully utilize financial services and resources.

Since 2015, FIRST has applied a “gender lens” to all of its projects to identify and analyze gender-related issues, formulate relevant policies to address them, and collect data on gender impact. Since the adoption of this approach, FIRST has conducted more than 20 technical assistance (TA) projects that have included specific gender-focused activities. Examples include promoting inclusive insurance through micro-insurance (Ethiopia); enabling payment innovations for financial inclusion that address barriers faced by women (Morocco); expanding pension coverage to informal workers and piloting gender-centric products and access points (India); and gender-disaggregated monitoring of secured lending to women and women-owned businesses (Moldova).

Finance and Fragile, Conflict and Violence-Affected Countries

Addressing FCV risks is one of the core themes of the World Bank Group. Indeed, there is a renewed commitment to deepening knowledge about FCV countries, designing integrated strategies to address drivers of fragility, and building institutional resilience.

The financial sector operating environment in FCV countries is extremely challenging because of political instability and security risks. These countries are typically characterized by weak macroeconomic fundamentals, inadequate legal and regulatory frameworks, and limited institutional and human capacity. Such factors often lead to unstable populations and forced migration, eroding the skilled work force and stunting job creation and growth. Financial markets in FCV countries can become unstable or nonfunctioning, further constraining sustainable growth and job creation.

FIRST 2.0 supports FCV countries in their efforts to build, strengthen, and diversify their financial sectors, while carefully assessing the types of interventions needed according to specific country contexts. FIRST TA in FCV countries takes a graduated approach to reforms in the enabling environment to achieve financial sector stability, often focusing on building institutions and capacity. FIRST TA for financial inclusion in FCV countries is similarly grounded in supporting the strengthening of the legal, regulatory, and institutional frameworks. It also addresses the problems of “de-risking” by financial institutions, whereby the accounts of clients perceived as high risk for money laundering or terrorist financing are closed. In sum, FIRST is providing important TA in some of the most challenging environments, helping to reduce the risks and drivers of fragility and conflict.

Why Financial Stability Matters for Jobs

Finance matters both when it functions well and when it functions poorly. Sound financial systems are critical enablers of credit flow to fund investments, savings, and risk management tools for individuals and firms. On the other hand, experience from past financial crises show that the poor and women are disproportionately affected because of their limited capacity and instruments to insulate themselves from the shock and the impact of the crisis. Financial crises, if not well managed and mitigated, can morph into economic and social crises. Past experience indicates that on average economic crises that begin as banking crises result in loss of jobs, depressed economic output, and increase in the number of school drop-outs more than economic crises that do not originate in the financial sector. Data over the past four decades show that developing countries averaged a loss of output of 29% of GDP and incurred fiscal costs of 10% of GDP when a banking crisis occurred.

Contact

Brett E. Coleman | Program Manager | FIRST Initiative
Tel: +1.202.473.2765 | Fax: +1.202.473.0876 | Email: first@worldbank.org
Address: FIRST Initiative, The World Bank Group, MSN F 4K-407 | 1818 H Street, NW, Washington, DC 20433, USA

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