Facilitating access to finance for MSMES: Shaping a role for employers’ organisations

Social Finance Programme
International Labour Organisation

Innovative Finance for Social Justice
Social Finance programme’s Mission

Enable the financial system to fulfil its potential to contribute to social justice
Social Finance Programme’s Objectives

1) An enabling environment: Equip policymakers to promote a sustainable and equitable financial system, and to establish innovative partnerships

2) Impactful financial service providers: Support banks, insurers, credit unions, investors and others to test new approaches, and to replicate successful products and processes

3) Productive and growing enterprises: Enable enterprises to use financial services to support their growth while creating more and better jobs
Social Finance Programme’s Objectives (cted)

4) **Effective workers’ and employers’ organizations:** Enhance the capacity of the ILO’s social partners to facilitate and/or provide financial services for their members, and influence financial sector policies

5) **Resilient and thriving communities, households and individuals:** Support women and men to take informed decisions to manage risks and benefit from financial services
SMEs in Africa

- More than 50 Millions MSMEs
- 69% of which in the informal sector
- They contribute 58% of total employment
- And 33% of continent GDP

- A recent study shows that in low income countries the contribution of MSEs (micro and small) to employment is higher than contributions of Medium and large enterprises (IFC, 2013)

→SMES are critical for the for socio-economic growth of the continent.
SMEs, access to finance and firm performance

Survey of 10,888 firms across 30 African countries (Fowowe, 2017)

Using 2 different measures of access to finance, the results show:
- the access to finance constraint exerts a significant negative effect on firm growth.
- firms that are not credit constrained experience faster growth than firms which are credit constrained.
SMEs, access to finance and employment creation

It is not an urban legend! Access to finance for MSMEs creates jobs!

- Many studies showed the positive link between financial access of a firm and its job creation potential:
  - Through more access to working capital financing (IFC, 2017),
  - A review of over 50,000 firms from 70 developing countries showed a strong positive link between access to finance and job growth. Overall, firms with access to a loan show employment growth between 1 and 3% points larger than firms with no access to finance (WB, 2016)
  - The same study finds the association between finance and job growth to be stronger among MSMEs than among large firms.

- These results have important policy implications for tailoring interventions intended to produce job growth in MSMEs through increased availability of financing.
How financially included is the African population?

Map showing account ownership varies widely around the world. Adults with an account (%), 2017.

Source: Global Findex database.
Mobile money account are part of the equation

Mobile money accounts have spread more widely in Sub-Saharan Africa since 2014

Source: Global Findex database.
Financing options by size

Map of financing options and their current availability to MSMEs

- Long term
  - Capital markets
  - Private equity
- Medium term
  - Lease financing
  - Bank financing
  - Trade financing/factoring
- Short term
  - Microfinance

Source: IFC
SME finance gap for formal enterprises
SMEs credit gap (formal and informal)
In Africa, SMEs are saying it themselves!!

In 71% of the countries, SMEs cite access to finance as the top growth impediment.
Facilitating access to finance for MSMEs: Shaping a role for Employers’ Organisations

The goal of the paper is to answer 2 questions:

1. Why should an EO be active in facilitating access to finance?

2. What can an EO do in this respect?
What can an Employers organisation do?
1/ Advocacy to ease lending conditions - EFI

**Employers Federation of India:** advocacy and lobbying on the role of collateral for SME lending

This was combined with capacity building efforts to banks and entrepreneurs as well as an easier access to guarantee scheme

2 outcomes of a national workshop:
- Need the legal system for titling land so that it can be used as collateral / nudge banks to explore collateral substitutes
- RBI to set the right limit for collateral free lending to MSMEs and setting up a guarantee mechanisms.

**Outcomes of the action of EFI:**
- RBI increased the threshold of collateral-free lending progressively from 7500 USD in 2000 to 37000USD today.
- RBI created a public Credit Guarantee Fund Trust for MSMEs
- Land acquisition act amendments.
1/ Advocacy to ease lending conditions: E-CAM

Partnership with Banque Camerounaise des PMEs: being part of the board of the bank:

- Encouraging the bank to take needs of MSMEs into account
- The bank started offering non financial services
- Adopting a sectoral approach to help the bank understand the unique necessities of specific segments and provide tailored services
- By being in the board E-CAM is building the capacity of the public sector staff of the SME bank to get used to operate in a private sector environment
2/ Boosting microenterprises formalisation: ABA Egypt

- Alexandria Business Association and USAID → ABA-SME project
- Turned into an independent micro-lending financial institution
- Across its programmes, ABA has intentionally weaved a strategy to stimulate the formalisation of its clients
- For an entrepreneur to access a loan of a progressively higher amount, the eligibility requirements are tied with assistance and business development services

<table>
<thead>
<tr>
<th>Loan Size (USD)</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>Personal ID card and fixed business address</td>
</tr>
<tr>
<td>800</td>
<td>Ability to read and write</td>
</tr>
<tr>
<td>1,250</td>
<td>Social security certificate</td>
</tr>
<tr>
<td>1,600</td>
<td>Tax card</td>
</tr>
<tr>
<td>2,500</td>
<td>Bank Checking Account</td>
</tr>
<tr>
<td>3,300</td>
<td>Financial and Tax Statements</td>
</tr>
</tbody>
</table>
2/ Boosting microenterprises formalisation: ABA Egypt

Outcomes of the action of ABA-SME:

- By 2016, around 18 percent of all of ABA-SME’s clients have completed the formalization ladder
- It took them between 1.5 and 3 years
Establishing a guarantee fund: Montenegrin Employers Federation (MEF)

- A survey by MEF to its members showed that they were struggling to access financial resources, application procedure complicated and expensive, collateral requirement burdensome, interest is high, additional fees...
- 2006 reform of Montenegrin economic regulatory framework. MEF took the opportunity to influence using its knowledge of the business environment and challenges faced by its members: difficult access to finance in Montenegro and guarantee fund as a possible solution.
- 2 conferences resulted in a roadmap of improving the business environment. MEF and government identified an existing fund to be transformed into an independent guarantee fund,
- A working group to work out the implementation: additional possible financing sources, amount of initial inv, doc preparation for fund set up and work plan ...
- Central bank: active role in preparing the legal framework
3/Establishing a guarantee fund: Montenegrin Employers Federation (MEF)

Outcomes of the action of MEF

- **By end of 2009**, the Montenegrin Development Fund was transformed into the Investment and Development Fund of Montenegro (IDF MN).

- The impact of this guarantee fund has been extremely positive. In 2012, 2013, and 2014 IDF MN disbursed 145, 173, and 300 loan guarantees respectively, with 12, 38 and 71 million Euro committed to the effort
3/Establishing a guarantee fund: GICAM Cameroun

- Since 2005, GICAM’s leadership has thought about the creation of a credit guarantee fund as a potential avenue to incentivize banks with excess liquidity to extend credit.

- Sept 2005 a feasibility study coordinated by the ILO highlighted few challenges:
  - in ensuring both the cooperation with the existing financial institutions, as well as ensuring that guarantees are backed by viable MSME business plans.
  - importance of choosing the right parameters that can ensure the sustainability of the fund: optimal level of capital stock, the right percentage of the guarantee as a proportion of the overall loan, and appropriate fees to be charged to the borrower.
  - the main challenge of any guarantee fund is to be able to demonstrate “additionality”

- Despite these challenges, the ILO study concluded that within the 2006 context - the FOGAMU was a worthy and feasible initiative
3/Establishing a guarantee fund: GICAM Cameroun

- 2007-2009: GICAM worked on formulating a business plan and went a long way specifying
  - Types of financial needs covered
  - Shareholding: Gov, IFIs, banks, private sector
  - Loans guaranteeing parameters

- A key challenge for GICAM’s guarantee fund initiative has been its inability to secure strong partnerships despite its best efforts, and due to a rapidly changing economic landscape.
5/ Establishing an MFI managed by the EO: ANDI and COHEP-Honduras

- **1984**: ANDI and USAID supported MSMEs support agencies.
- 35 institutions and impacted more than 50,000 families have been served.
- **1991**, ANDI decided to create a separate structure and the Fundación José María Covelo. Its original mission was to develop the MSME sector through an enhanced impact of the microfinance sector.
- In the first stage, the Foundation assisted more than 30 local development agencies through institutional strengthening services, technical assistance, advice and training.
- **1995** implementation of a direct credit programme targeting micro and small entrepreneurs. Separation of staff and governance systems of the 2 projects: CB and credit provision.
5/ Establishing an MFI managed by the EO: ANDI and COHEP-Honduras

Outcomes of the action of ANDI:

- Given its experience in direct lending, the Foundation - together with ANDI - took a leadership role in shaping the *regulation-drafting process* of MFIs in Honduras. This culminated in the *approval of a law* regulating the development of private organizations dealing with financial services.

- 2007, the Foundation spun off its direct lending business, which became Bancovelo, the *first and biggest* specialised micro bank in the country

- The current status of the microfinance sector in Honduras is directly related to the work of the EOs and the Foundation
What about Unions?  
Inclusive Finance for Workers

Objective:

To empower trade unions to improve access to finance for their members and potential members, either by managing financial institutions, by creating partnerships or through advocacy towards existing specialized service providers.

Contents:

1. Why TU as facilitators of inclusive finance for workers?
2. What can TU do to facilitate financial inclusion of workers?
3. How can TU facilitate access to financial services, and when to take action?
Merci

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