



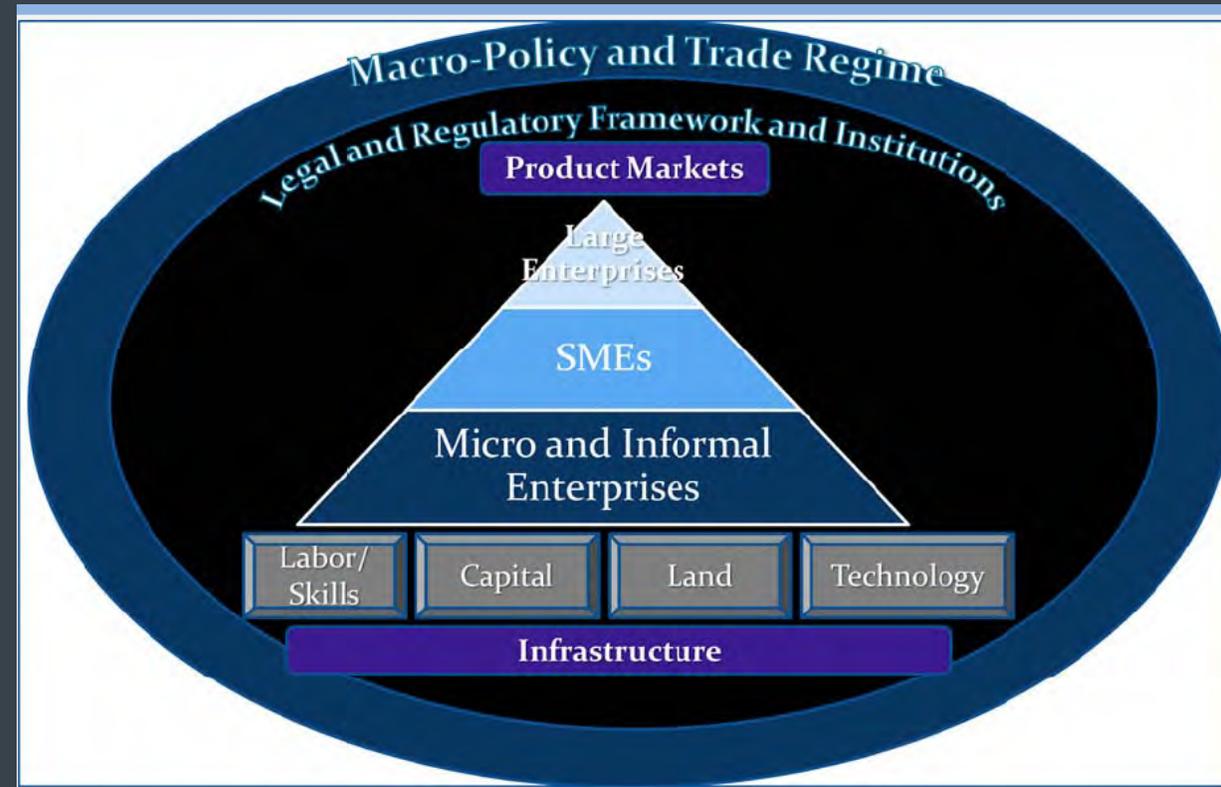
Role of the World Bank in SME Development

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Lahore

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WB Survey Outcomes – What do SMEs need?



- An open and reliable ecosystem of policies and institutions;
- Efficiently regulated markets and competitive product markets;
- Well maintained infrastructure, openness to trade, access to finance... etc.

WBG's SME Sector Development Activities

- ▶ **WBG seeks to promote private sector-led growth to contribute to employment creation, inclusive growth, and poverty alleviation. It promotes SME growth through both systemic and targeted interventions.**
- ▶ **Why:**
 - ▶ **A thriving and growing SME sector is associated with rapidly growing economies;**
 - ▶ **SMEs face special challenges that do not apply to other sizes of firms, so addressing these challenges will “level the playing field.”**
- ▶ **How:**
 - ▶ **Providing better access to finance as it can help firms enter the market, formalize, survive, and grow, as well as organize more efficiently;**
 - ▶ **Improving investment climate (e.g. stronger property rights and better contract enforcement) is linked to easier access to credit. Similarly long-term institution building, including contractual and (credit) information frameworks, helps ease SMEs' financing constraints.**

SMEs are big business for the WBG

- ▶ SME support overall constitutes more than US\$3 billion a year in commitments. Over the period FY06-12, 14% of WB projects, 28% of IFC investment projects, and 46% of MIGA projects were entirely for SME activities.
- ▶ WBG's support to SMEs takes multiple forms, each supporting SME growth as a means to contribute to employment creation, GDP growth, market dynamism, and/or economic inclusion.
- ▶ The SME activities include a range of financing instruments (loans, guarantees and grants), analytical work and development policy operations.

WBG's Global SME Portfolio

	IFC	MIGA	World Bank
Financing through loan, investment, or guarantee	On-lending, leasing, direct investment, partial risk guarantee, and more. 384 projects, \$10,078 million	SIP for FDI in SME or FI, regular guarantee to FI, 88 projects, \$2,495 million.	FILs, partial risk guarantees, matching grants (as financing mechanism) 103 projects, \$3,801 million
Advisory services to government, financial institutions	Advisory services to financial institutions, public and private bodies. 134 projects, \$77 million		Technical assistance to governments, financial institutions and others. 71 projects, \$380 million
Business development services/advisory services/training	Business Edge, SME toolkit, other BDS, training and advisory. 87 projects \$53 million		BDS, training and advisory services, sometimes linked to matching grants. 25 projects \$372 million
Value chain interventions, networks, and clusters	SBA/linkages work. 51 projects, \$41 million	Guarantee to firm with SME Linkages. 1 project, \$14 million	Value chain AAA and projects (cluster development, growth pole, and so forth). 18 projects, \$383 million

Source: IEG portfolio review.

Note: With number of projects and aggregate of commitment value, expenditure and gross exposure. AAA =analytic and advisory activity; BDS = business development service; FDI = foreign direct investment; FI = financial intermediary; FIL = financial intermediary loan; SBA = stand-by arrangement; SIP = small investment program; SME = small and medium-sized enterprise.

WBG Products/Activities for SME Development

- ▶ **Global Value Chains (GVCs):** The team offers an integrated approach towards the development of GVCs, covering a diverse range of issues (financing, trade, infrastructure, policies and regulations, marketing, investment climate). The overall GVC development thus benefits the SMEs that have backward and forward linkages with the large manufacturers and service providers in the value chains.
- ▶ **SME Matching Grants Projects:** The financial support to crisis affected SMEs is provided for immediate rehabilitation. Examples from Pakistan, Yemen, and parts of AFR.
- ▶ **Risk Sharing Facilities:** To encourage the middle tier financial institutions to offer financial products to SMEs, typically in developing countries. (RSF is a bilateral risk sharing agreement)
- ▶ **Innovations in SME Development:** Using technology (e.g. branchless banking) for promoting financial literacy and A2F, linkages with sophisticated financial markets to promote use of new financial products (WB Office in Malaysia, WB Islamic Finance Center in Istanbul)
- ▶ **SME Finance Community of Practice:** Learning forum for internal audience who benefit from global experience of working with SMEs and also hear directly from external speakers and practitioners regarding their experiences of SME development.

Recent activities: (i) SME Development Project, Mexico; (ii) Incubators in the Caribbean; (iii) Crowd Funding and Alternative Finance in East Asia and the Pacific; (iv) iSME Project in Lebanon; (v) SME Support in a Crisis Environment – the experience of Post Ebola Support in Liberia; (vi) Economic Revitalization of KP and FATA Project, Pakistan; (vii) Financial Inclusion Support Framework (upcoming)

WBG Support to Pakistan's SME Sector

Activity Name Advisory Services and Analytics (ASA) and Projects	
World Bank	International Finance Corporation
Economic Revitalization of KP and FATA	Pakistan Credit Bureau and Microfinance
Financial Inclusion Support Framework	UBL SME Banking Advisory Project
Financial Infrastructure Support	Pakistan Dairy Sector Development
FSAP Development Module	Pakistan and Afghanistan Corporate Governance Project
Punjab Growth and Competitiveness P4R	Punjab Investment Climate
Karachi Growth Report	HBL Rural Business Advisory
Fisheries Sector ASA	Pakistan Trade Facilitation Project
Doing Business ASA	NRSP Microfinance Bank ASA

Potential Challenges of SME support...

- ▶ Increasing need to adapt interventions to country conditions and enterprise priorities.
- ▶ Although finance can be a very real constraint, complementary measures may be needed to ensure that relaxing the financing constraint for SMEs does not lead firms directly into some other binding constraint to growth.
- ▶ Hence;
 - ▶ **Important to also consider business development services, value chain financing products, market linkages, innovation and R&D.**
 - ▶ **Enhanced focus on impact evaluation of WB interventions for SMEs.**
 - ▶ **Integration of SME activities in Country Partnership Strategies and Joint Investment Plans.**