



International
Labour
Organization

Enhancing access to finance

Financial service constraints for small enterprises

Small enterprises are key engines for job creation and economic growth. Yet they are often unable to live up to their potential due to diverse challenges, including burdensome regulations, limited entrepreneurial and technical skills, and poor access to markets. In addition, the unavailability of appropriate financial services is frequently identified as an important binding constraint on enterprise development. In the World Bank Enterprise Surveys, over a third of small enterprises identify access to finance as a major obstacle. Findings of the ILO's own Enabling Environment for Sustainable Enterprises (ESEE) assessments including enterprise perception surveys conducted to date in over 30 countries also confirm that access to finance is amongst the top five challenges listed by enterprises.

Most enterprises need financial services to grow and generate more revenue, take advantage of business opportunities, become more productive and competitive, and to manage risks. Small businesses require a range of services including credit, leasing, investments, insurance and payments, depending on their size, stage of development and business model. However, financial institutions can find it challenging to respond to their demand, as these enterprises are often perceived as too risky and costly to serve.

At the same time, entrepreneurs often lack the expertise to use financial services to their best advantage. Financial service consumers must be able to make informed choices about taking on debt and equity, finding safe and affordable mechanisms to invest and transfer money, and what to look for in insurance contracts. Financial education needs to go hand in hand with improved market offerings.

The ILO's Enterprises Department offers a menu of interventions to address these challenges, including entrepreneurship training, value chain development, recommendations to improve the business environment and improving access to financial services.

The ILO approach to expanding and enhancing finance for small enterprises

The ILO approach to enhancing finance for small enterprises focuses on building the capacity on both the demand and the supply side (see Figure 1). Financial service providers (FSPs) are strengthened to be able to provide relevant products, and entrepreneurs are capacitated to use those services most effectively. In collaboration with the ILO's International Training Centre in Turin, the ILO delivers much of the content by training local trainers, which facilitates significant outreach.

On the **supply side**, the ILO enables FSPs to recognize that different market segments require different packages of interventions, and to tailor their services for specific target groups, including women, youth and enterprises in rural areas. To achieve that objective,

the ILO has developed a range of training programmes to improve management practices and facilitate product diversification, as well as on more specific topics such as leasing, insurance, guarantee funds and post-crisis environments (see ILO tools and products).

On the **demand side**, the ILO supports a range of actors, including FSPs and business development service (BDS) providers, to offer financial education to a variety of target groups, including entrepreneurs. By enhancing their ability to use financial services, they will be able to achieve better business results.

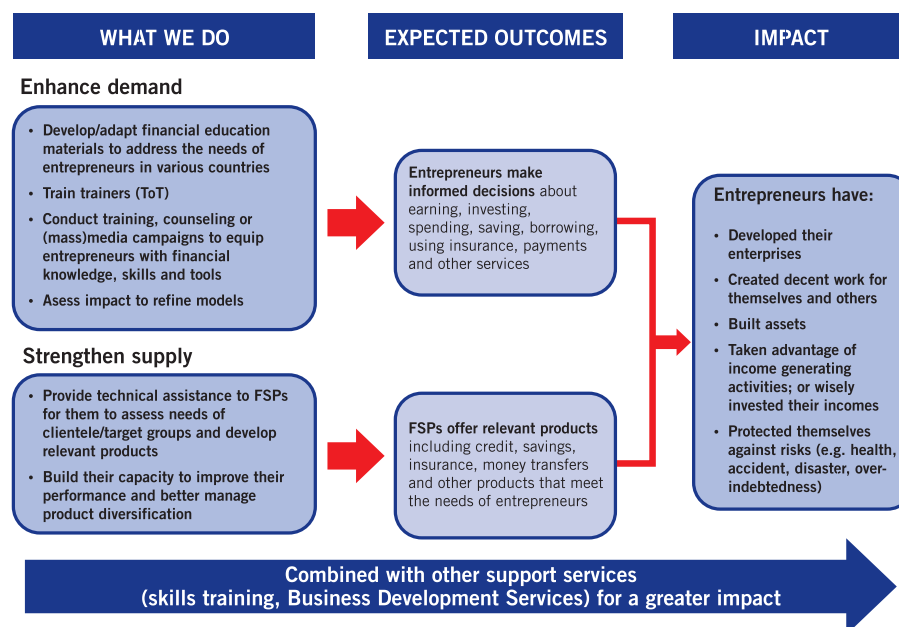


Figure 1: Results chain of ILO interventions to enhance financial access

ILO products and tools

The ILO has a range of products and tools to enhance access to finance for small enterprises. These include:

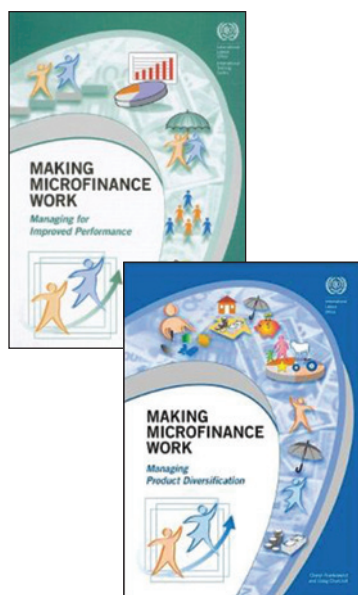
- Advise to ILO constituents and partners in the identification of the constraints to access finance,
- Support in assessing the availability of financial services,
- Design of strategies to address constraints to supply and demand,
- Design and roll out of financial education and suitable products such as micro-insurance and leasing of equipment,
- Advise on how financial institutions can reduce risk by promoting good workplace practices among their clients,
- Advise on how to integrate of access to finance with other means to promote enterprises such as management training or value chain development for greater effectiveness,
- Offer of training programmes, that aim at strengthening supply and supply of financial services.

Strengthening supply: Making Microfinance Work

Making Microfinance Work (MMW) is a flagship training programme developed jointly by the ILO's Social Finance Programme and the International Training Centre. The programme targets middle and senior managers in banks, microfinance institutions and credit unions. It is designed to strengthen their ability to provide better financial, and perhaps non-financial, services to more small businesses.

Since its introduction in 2005, MMW has reached over 2,000 participants from more than 500 FSPs and received very positive feedback about the appropriateness of the content and the effectiveness of the learning methodologies. More than 100 trainers are certified to offer this programme, which is available in eight languages.

Although labelled as a “microfinance” course, the content is relevant for any financial institution involved in micro, small and even medium enterprise lending. The program consists of two volume courses for managers and one for funders:



- **Volume I: Managing for Improved Performance.** This course helps managers develop a holistic understanding of the different functions that contribute to successful operations. It enables managers to improve the strategy, marketing, risk management, organizational architecture, efficiency and productivity of their unit, branch or institution.
- **Volume II: Managing Product Diversification.** This course prepares managers to expand their institutions’ outreach. It explores the opportunities and challenges presented by ten different types of products and eight market segments. It provides tools and guidance for managing product diversification, as well as the maintenance of a diverse product portfolio. The content of this volume is designed to be adapted for FSPs interested in servicing specific market segments, including women, youth and smallholders.
- **Making Microfinance Work for Funders:** Participants of this course gain knowledge of the broader financial inclusion landscape, as well as the nuts and bolts of how to effectively fund different kinds of market-development interventions. The course is tailored for donors, funders, development specialists, wholesale facilities’ staff and officers making funding decisions on microfinance and financial inclusion.

Other courses to strengthen supply

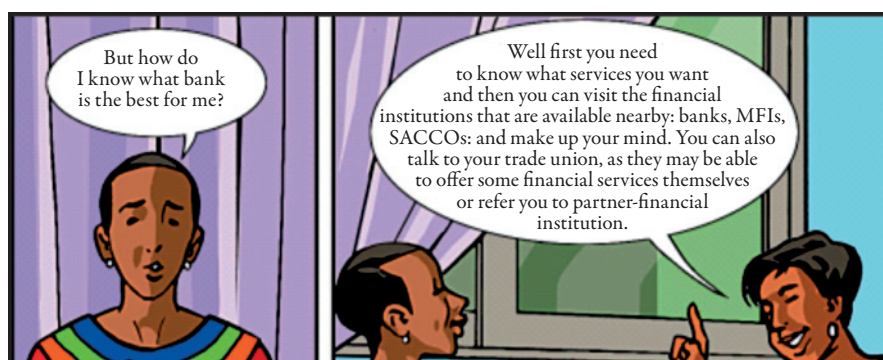
The ILO has also developed several courses that drill down into specific product or market issues. These courses can be offered on request, but are not available from a network of local trainers.

- **Insurance:** A series of short courses for insurers and distribution channels has been developed on key topics such as market research, product design, client value, pricing, marketing, and partnership management.
- **Leasing:** One strategy to extend credit services to small and even medium enterprises (SMEs) is through a leasing arrangement, particularly for business equipment.
- **Guarantee funds:** To encourage FSPs to lend to market segments that they consider risky, a guarantee fund may be a useful intervention. This course provides guidance on how to design and implement guarantee funds, for example by business associations or local economic development agencies, to increase the supply of credit to SMEs.
- **Microfinance in post crisis settings:** Properly designed, financial service interventions can be relevant after a man-made or natural disaster by building trust and social capital, facilitating reconstruction and expanding economic opportunities. This course is primarily targeted at humanitarian agencies to ensure that they can create a bridge between relief and development.

Enhancing demand

Financial education provides basic skills related to earning, spending, budgeting, borrowing, saving, and using other financial services such as insurance and money transfers. It is essential for increasing financial literacy, i.e. the ability to understand finance. It refers to the set of skills and knowledge that allows entrepreneurs to make informed and effective financial decisions, and an understanding of the financial services that are available to them.

The ILO has developed a number of training materials adapted for various target groups, including youth, migrant workers and union members, which has benefited thousands of financial service consumers in a variety of Asian and African countries. The trainings use a participatory approach through role plays, case studies, brainstorming, and small group discussions. The curriculum is delivered either through individual sessions or in classrooms. Partner-agencies can adjust the length of the training to the needs and availability of their target groups. The modular approach allows for easy adaptation to other dissemination channels such as videos, podcasts and street theatre.



The ILO in action: Enhancing financial services for Nepalese youth

In 2010, the ILO launched a “Job for Peace” programme in Nepal, in order to contribute to national peace building and poverty reduction by engaging youth in productive employment activities and empowerment. This project provides a good example of an integrated intervention, targeting both the supply and demand side of financial services for enterprise promotion. The project aimed at: 1) promoting the development of financial products that meet the needs of the entrepreneurial youth; 2) enhancing financial literacy of young prospective clients of partner FSPs; and 3) facilitating financial linkages between skills, providers of business development services and partner FSPs to enhance access to finance for youth.

After a thorough mapping of financial services targeting young entrepreneurs in the region of implementation, the ILO provided training to FSPs on managing product diversification and assisted them in developing financial services for young people. At the

same time, it developed a financial education programme targeting youth and conducted training of trainers with BDS providers and FSPs on financial education. The project also helped to create a network between BDS providers and FSPs to create synergies in the provision of financial and non-financial services.

At the end of the two-year intervention:

- Out of 1,525 young people trained in financial education, 1,285 had increased their regular savings, which some were accumulating as equity to start an enterprise.
- 18 per cent of the beneficiaries of financial education had also been trained in entrepreneurship using ILO’s Start and Improve Your Business (SIYB) package, and had accessed credit services to expand their business
- the 6 financial institutions that participated in product diversification training had launched a new financial product targeting young people.

The ILO and Sustainable Enterprises

The ILO Sustainable Enterprise Programme helps create more and better jobs through enterprise development. It connects business growth and competitiveness with the needs of people to make a decent living in a healthy environment - today and in the future. Anchored in the ILO’s mission to create decent work for all women and men, this programme is centred on three pillars:

- An enabling environment for enterprises - Creating the right framework that enables businesses to start, grow and create decent jobs;
- Entrepreneurship and business development - Helping entrepreneurs, in particular youth, women and marginalized groups, to start and build successful enterprises;
- Sustainable and responsible workplaces - Demonstrating the link between productivity gains and improved working conditions, good industrial relations and good environmental practices.

The programme combines evidence-based policy development with capacity building and enterprise support services, delivered at the international and country levels, through advisory services and a large portfolio of technical cooperation. It works with governments, employers’ and workers’ organizations, in partnership with other UN agencies, financial and academic institutions, donors and others.

Further reading

ILO SFP page on financial education - <http://bit.ly/1dptY55>

ILO SFP page on Making Microfinance Work - <http://bit.ly/1iCCWRs>

ILO ITC resources on Making Microfinance Work - www.mmw.itcilo.org

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