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IMF staff team led by Nicolas Blancher

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Executive Summary

The importance of financial inclusion is increasingly recognized by policy-makers around the world. Small and medium-sized enterprise (SME) financial inclusion, in particular, is at the core of the economic diversification and growth challenges many countries are facing. In the Middle East and Central Asia (MENAP and CCA) regions, SMEs represent an important share of firms, but the regions lag most others in terms of SME access to financing.

Improving SME financial inclusion can help increase economic growth, job creation, and the effectiveness of fiscal and monetary policy and could also contribute to financial stability. In the MENAP and CCA regions, the potential benefits are particularly high: annual economic growth could, in some cases, be boosted by up to 1 percent, potentially leading to about 16 million new jobs by 2025 in these regions.

International experience suggests that many factors can help scale up SME bank credit, including

- Economic fundamentals and financial sector characteristics, such as macroeconomic stability, limited public sector size (to avoid crowding out SME access to credit), financial sector soundness, a competitive banking system and, more broadly, a competitive and open economy that could boost SME investment and demand for credit.
- Institutional factors, such as strong governance and financial regulatory and supervisory capacity, credit information availability, and a supportive business environment, including modern collateral and insolvency frameworks, and legal systems that allow to adequately enforce property rights and contracts.

In addition, alternative channels can facilitate greater SME access to financing, including by supporting the supply of bank credit. Cross-country experience shows that capital markets can play such a role at various stages of SME development. Similarly, fintech can both help reduce constraints on bank credit (for example, credit information or competition) and open new channels for SME financing. Both capital markets and fintech are still nascent in the MENAP and CCA regions.

A range of policies and reforms have already been implemented across countries to support SME financial inclusion. These include direct interventions to enhance bank credit, such as through state-owned SME banks, credit guarantee schemes, and interest rate regulations. In recent years, a growing number of countries have also developed national strategies to address key obstacles to household and firm financial inclusion.

A key conclusion is that partial approaches, such as policies focusing solely on direct public financing or guarantees, are unlikely to yield large benefits. Rather, meaningful, safe, and sustainable SME access to financing requires a holistic approach covering the key building blocks listed above, from macroeconomic to legal and regulatory aspects. This approach can also trigger a virtuous circle of greater SME transparency and reduced informality, bringing about broader benefits to the economy and stronger demand for credit. Finally, specific policy and regulatory frameworks are needed to encourage the development of SME financing through greater reliance on capital markets and new technologies.

The policy framework proposed in this paper can help support policymakers in formulating and implementing country-specific reform strategies for greater SME financial inclusion. The IMF and other international organizations have important roles to play in providing analytical input and concrete policy advice based on the various aspects of this framework, building on lessons from international experience.