



MUNIAL'26

ECOFIN

Study Guide

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Letter from the Secretary General

Dear Attendees,

It is an honor to welcome you all to the 7th annual session of İzmir Atatürk Lisesi Model United Nations Conference. I am Duru Kılıç, your Secretary-General. If you are reading this letter, you probably already know why you should be here, but let us remind you once more.

MUNIAL is a legacy preserved by generations, now bestowed upon us by our upperclassmen. Being entrusted with this conference was not an easy feat; so you can be sure that we are no amateurs when it comes to MUN, and that it isn't a coincidence you are attending the best. Our esteemed Director-General, Can Karadağ, and I have sacrificed months, if not years, working for our titles. But it wasn't just for MUNIAL; it was for the journey where we grew, improved, and found the best versions of ourselves. Now we stand proud, confident that this year will be no short of what our upperclassmen showed us, if not better.

MUN isn't just an academic achievement, though. This is a free space where you can improve your people skills, make new connections, have fun, and enhance your cultural knowledge. For me, this journey was one where I found family, and now I am honored to be the one creating the opportunity for others to do the same.

Sincerely,

Duru Kılıç

Letter from the Under Secretary-General

Esteemed Delegates,

Hello, first of all, I would like to extend a warm welcome to all of you at this esteemed conference. My name is Gülse, and I am deeply honored and proud to serve as an under secretary-general for the Economic and Financial Committee in MUNIAL'26.

I am extremely excited to have the opportunity to welcome you all. It is a great honor to get together with individuals who share diverse ideas, perspectives, and knowledge within the committee. ECOFIN (Economic and Financial Committee) addresses major global issues and plays an extremely important role. Therefore, I recommend that while working, you also make an effort to deeply consider them and try to find possible solutions to our problems, which will allow you to gain insights into global issues. I hold each of your ideas and thoughts in high regard and truly appreciate their value. I have deep confidence in the knowledge and efforts of each of you, and I hope to provide the best possible guidance throughout this conference. I sincerely hope that this resource has proven to be beneficial for your research and work.

If you have any questions or concerns, please do not hesitate to contact me via email.

Wishing you fruitful and effective research and a great experience within these three days.

Sincerely yours,

Gülse öz

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1. Introduction to the Economic and Financial Committee

The Economic and Financial Affairs Council (ECOFIN) is one of the oldest configurations of the Council of the European Union. It comprises the economics and finance ministers of the 27 European Union member states, as well as Budget Ministers when budgetary issues are discussed. ECOFIN often works with the European Commissioner for Economic and Financial Affairs and the President of the European Central Bank

The Council covers several EU policy areas, including economic policy coordination; economic surveillance; monitoring of Member States' budgetary policy and public finances; the euro (legal, practical, and international aspects); financial markets and capital movements; and economic relations with third countries. It also, together with the European Parliament, prepares and adopts each year the European Union's budget, which is about €145 bn.

Decision-making: The council meets once a month and decides mainly by qualified majority, in consultation or codecision with the European Parliament, except for fiscal matters, which are decided by unanimity. When the Ecofin Council examines dossiers related to the euro and EMU, the representatives of Member States whose currency is not the euro do not participate in the council's vote.

The Economic and Financial Affairs Council, commonly known as the Ecofin Council, is responsible for:

- -economic policy
- -taxation matters
- -financial markets and capital movements
- -economic relations with countries outside the EU

It also prepares the EU's annual budget and oversees the legal and practical aspects of the euro, the EU's single currency.

The Ecofin Council:

- coordinates member states' economic policies
- furthers the convergence of their economic performance
- monitors their budgetary policies

It also coordinates EU positions for international meetings, such as the G20, the International Monetary Fund, and the World Bank. It is also responsible for the financial aspects of international negotiations on measures to tackle climate change.

During economic crises, pandemics, or global shocks, the widespread presence of MSMEs increases economic resilience by preventing economies from becoming overly dependent on a small number of sectors or large firms, enabling faster recovery and greater stability. Additionally, MSMEs contribute to government revenue through taxes, are essential to supply chains, and support the overall functioning of the economy by collaborating with larger companies.

Despite these contributions, MSMEs and small businesses often face significant challenges, including limited access to finance, complex bureaucratic procedures, insufficient information, and intense market competition. This makes improving access to financial resources, microfinance programs, training opportunities, digital markets, and government support systems extremely important, as easier access not only helps these businesses survive but also allows them to grow, become more competitive, and operate sustainably in the long term. Facilitating access also encourages businesses to move from the informal economy to the formal sector, increases transparency, and enables governments to design more effective economic policies.

Moreover, supporting MSMEs directly contributes to achieving the United Nations Sustainable Development Goals, including poverty reduction, decent work, reduced inequalities, and sustainable economic growth. Therefore, MSMEs and small businesses should not be viewed merely as small economic actors, but rather as key pillars of social stability, inclusive development, and the overall balance of the global economy.

To summarize, the economy functions like a gear system, consisting of interconnected stages. The existence of small and medium-sized enterprises (SMEs) is crucial for economic growth and development. They act as cogs in the system, ensuring the continuation of the economic process. The profits generated not only contribute to the national economy but can also significantly reduce unemployment. Therefore, facilitating access to these businesses and the financial institutions that support their proliferation is essential today.

a. Access to Finance Related General Issues

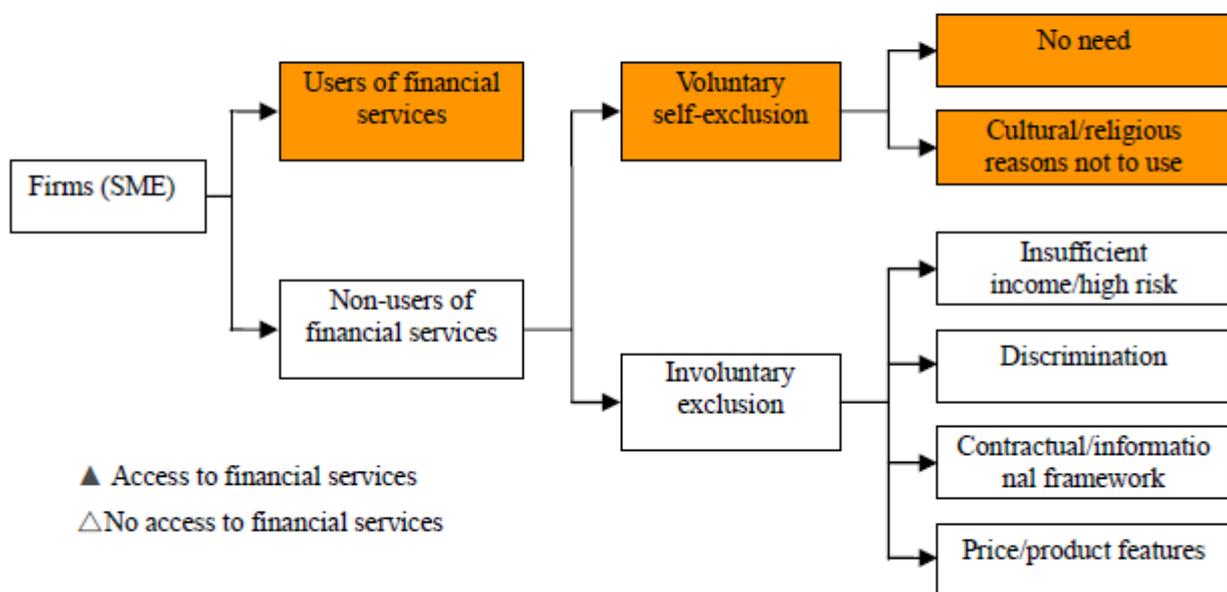
Access to finance has long been a subject of significant research interest among academics and a major policy concern for policymakers in both developed and developing economies. Several factors have contributed to this. First, there is some empirical evidence that expanding access may reduce poverty in developing countries. Second, interest in access also stems from the fact that arguments about the channels through which financial development may lead to growth often include access-related narratives. A third reason is the widespread lack of access to financial services in emerging economies, particularly relative to developed countries. Fourth, the recent Investment Climate Survey, conducted by the World Bank, shows that one of the major impediments to fostering firms is a lack of access to financial services, which would expand economic growth and employment generation and reduce poverty in many developing countries.

b. What does access to finance mean?

Financial inclusion, or broad access to financial services, is generally defined as the absence of price and non-price barriers to their use.

Improving access, then, means increasing the extent to which financial services are available to all at fair prices. It is easier to measure the use of financial services because usage data are observable, but use is not always the same as access. Access refers to the availability of services, whereas use is driven by demand and supply.

Figure 3. Access to finance and use of financial services



Source: The IBRD/World Bank, "Finance for all? Policies and Pitfalls in Expanding Access," 2008.

Figure 3 illustrates the difference between access to and use of financial services. Users of financial services can be distinguished from nonusers, and there are important distinctions among nonusers. On the one hand are those who do not use financial services for cultural or religious reasons, or because they see no need. These nonusers include enterprises without any promising investment projects. These nonusers have access, but they choose not to use financial services. From a policymaker's perspective, nonusers are not a problem because their lack of demand drives their nonuse of financial services.

On the other hand are the involuntarily excluded who, despite demanding financial services, do not have access to them. There are several different groups among the involuntarily excluded. First, there is a group of firms considered "unbankable" by commercial financial institutions and markets because they lack

sufficient income or collateral or present an excessive lending risk. Second, there might be discrimination against certain groups based on social, religious, or ethnic grounds. Third, the contractual and informational framework may prevent financial institutions from reaching certain groups of firms because such outreach is too costly to be commercially viable. Finally, the price of financial services may be too high, or the product features might not be appropriate for certain firms. While the first group of involuntarily excluded individuals cannot be a target of financial-sector policy, the other three groups require different responses from policymakers.

Theoretically, a problem of access to credit for firms exists when a project that would be internally financed if resources were available does not get external financing. This occurs because there is a gap between the project's expected internal rate of return and the rate of return required by external investors to finance it. This wedge is primarily driven by two well-known constraints that hinder the ability to write and enforce financial contracts: principal-agent problems and transaction costs.

c. Current situation

In many parts of the world today, especially in developing countries, microfinance institutions (MFIs) and the small businesses they aim to support face substantial and persistent access problems that significantly hinder economic growth and inclusive development. Despite microfinance's aim to bridge the gap between traditional financial services and underserved entrepreneurs, financial access remains limited and fraught with obstacles that affect both institutions and the small enterprises that depend on them.

In Nigeria, for example, microfinance access is constrained by high operational costs, inadequate funding, and structural inefficiencies, making it difficult for institutions to provide enough loans to deserving entrepreneurs; many MFIs struggle to secure adequate capital, and the administrative burdens associated with managing large numbers of small, low-value loans push operational costs higher, forcing them to charge interest rates that are often unaffordable for target clients, discouraging small business owners from seeking formal financial support in the first place. Additionally, poor infrastructure, such as unreliable power, limited digital connectivity, and inadequate transportation networks, slows down service delivery and makes reaching rural or remote entrepreneurs expensive and logistically complex, further reducing outreach and effectiveness. Strict and sometimes inconsistent regulatory environments also add to the challenge: compliance costs and licensing requirements can deter smaller MFIs from expanding and limit their flexibility in designing services that better meet small-business needs.

These problems are compounded by the fact that many potential clients lack basic financial literacy or a cultural banking background, leading to mistrust of financial services and limits the uptake of microfinance products. At the same time,

high rates of loan defaults and weak credit assessment systems increase financial risk for MFIs, making them more cautious in lending and often reducing the volume of credit available to emerging entrepreneurs.

Similar patterns of difficulty are evident in Tanzania, where small-scale businesses and microfinance providers face a range of structural and systemic constraints that hinder improved financial access and the growth of small enterprises. Studies have shown that, although some small businesses in rural districts do receive microfinance services, many still confront substantial barriers that weaken the potential impact of credit assistance; these include stringent lending requirements like high collateral and compulsory savings deposits, which are often unattainable for fledgling entrepreneurs with limited assets, making it difficult to secure startup or expansion capital. In addition, the complexity of loan application processes and unfavorable repayment terms discourage many small business owners from engaging with formal microfinance options, forcing them instead to rely on informal, often more expensive sources of credit, such as friends, family, or local moneylenders.

The lack of flexible, attractive loan terms and MFIs' reluctance to finance newly established enterprises exacerbate the situation, leaving many small businesses—particularly those without established financial records or collateral—effectively excluded from the formal microfinance system. Beyond the lending conditions themselves, the broader economic environment in Tanzania poses additional challenges: high transaction costs relative to loan size, limited institutional budgets, and logistical difficulties in servicing rural or geographically dispersed communities all make it harder for microfinance providers to maintain sustainable operations while expanding outreach. Moreover, the absence of robust legal and financial frameworks that support small-business lending undermines confidence among both financial institutions and entrepreneurs, underscoring a clear need for systemic reforms to lower barriers and expand scalable access to finance.

Across both contexts, a common underlying issue is the persistent gap in financial inclusion that disproportionately affects the most vulnerable groups in small business populations, such as women entrepreneurs and informal-sector workers. Research in Nigeria highlights that social and cultural barriers, including norms around gender roles, lack of business skills, and illiteracy, exist. Further complicates women's access to microfinance, reducing their participation in entrepreneurship and reinforcing gender disparities in economic opportunity. Without targeted support such as financial education, capacity-building programs, and gender-sensitive lending instruments, women-led businesses continue to struggle in securing the capital they need to build sustainable ventures, ultimately limiting their contributions to broader economic development.

Similarly, in Tanzania, many micro-enterprises remain informal and lack the legal identity or credit history needed to engage with formal financial systems. This not only reduces access to microfinance but also discourages informal businesses

from transitioning into the formal economy, where they might benefit from broader support systems and protections. This dynamic creates a cycle in which small business owners avoid formal financial pathways due to perceived complexity or exclusion, which in turn limits the microfinance sector's growth and reinforces reliance on informal financing channels that often charge higher costs and offer less stability.

Taken together, these challenges highlight a fundamental problem in today's global microfinance landscape: while microfinance institutions and small-scale enterprises have the potential to drive inclusive economic growth, reduce poverty, and expand financial participation, structural barriers from operational and regulatory constraints to socio-cultural and educational limitations continue to limit their effectiveness and reach. Addressing these issues requires coordinated policy efforts to reduce bureaucratic burdens, promote technological and infrastructure improvements, enhance financial literacy among underserved populations, and tailor financial products to the specific needs of diverse entrepreneurs, particularly women and informal-sector operators. Only through such multi-dimensional strategies can microfinance systems evolve into more inclusive and impactful engines of economic empowerment for small enterprises worldwide.

i. The Challenges of Microfinance Access in Nigeria

Although microfinance has been promoted in Nigeria as a key mechanism to enhance financial inclusion and support small-scale entrepreneurship, its effectiveness is increasingly undermined by a set of less visible but equally significant challenges. One major issue is the mismatch between microfinance products and the needs of small businesses, as many loan schemes are standardized and do not account for sector-specific risks, seasonal income patterns, or the long gestation periods required for certain enterprises to become profitable. This lack of customization often results in funds being used inefficiently or diverted to non-productive purposes, weakening business growth and increasing repayment difficulties. Furthermore, the dominance of short-term lending in the microfinance sector limits small enterprises' ability to invest in long-term assets such as machinery, technology, and workforce development, thereby limiting productivity gains and competitiveness.

Another critical challenge is weak monitoring and evaluation mechanisms; insufficient post-loan supervision reduces accountability on both the borrower and institutional sides, contributing to rising default rates and inefficient credit allocation. Institutional governance issues also play a role, as some microfinance institutions suffer from poor management practices, limited transparency, and inadequate risk management frameworks, which erode public trust and reduce investor confidence in the sector. In addition,

macroeconomic instability, including inflation, currency depreciation, and fluctuating interest rates, further constrains microfinance operations by increasing uncertainty and reducing the real value of loan capital, making it difficult for both lenders and borrowers to plan effectively. The limited integration of microfinance institutions into the broader financial ecosystem presents another obstacle, as weak linkages with commercial banks, development finance institutions, and digital financial platforms reduce opportunities for refinancing, scaling, and innovation. Moreover, security challenges and regional instability in certain parts of Nigeria disrupt business activity and limit the physical reach of microfinance services, particularly in conflict-affected or high-risk areas, leaving many entrepreneurs financially excluded despite high demand for credit. Taken together, these challenges demonstrate that, beyond capital shortages and high interest rates, structural inefficiencies, macroeconomic pressures, and institutional weaknesses continue to constrain access to microfinance in Nigeria, underscoring the need for more adaptive financial products, stronger governance, and deeper integration into the national financial system.

ii. Challenges Faced by Microfinance Institutions

Microfinance institutions (MFIs) in developing countries, such as India and Tanzania, face a range of institutional and systemic challenges that limit their effectiveness in advancing financial inclusion. In India, the rapid commercialization and expansion of the microfinance sector have intensified competition among institutions, leading to client overlap and credit concentration in certain regions. This competitive pressure has, in some cases, encouraged aggressive lending practices and weakened internal controls, ultimately increasing portfolio risk and undermining institutional stability.

In Tanzania, MFIs often operate at a relatively small scale and lack institutional maturity, which limits their ability to diversify their product offerings or invest in operational upgrades. Many institutions remain heavily dependent on donor funding or short-term external financing, exposing them to funding volatility and limiting long-term planning capacity. Across both countries, insufficient coordination between MFIs and national financial inclusion or development strategies further reduces impact, as microfinance initiatives frequently function in isolation rather than as part of an integrated financial ecosystem. Weak governance frameworks, limited managerial expertise, and inadequate data management systems also hinder transparency, accountability, and performance evaluation, reducing trust among clients, investors, and policymakers alike.

iii. Challenges Confronting Small-Scale Businesses in Accessing Microfinance Services

Small-scale businesses in countries such as Tanzania and India face structural and market barriers that complicate access to microfinance services, even when such services are formally available. In Tanzania, many small enterprises operate in fragmented markets with limited infrastructure, weak supply chains, and unstable demand conditions, which increases business risk and discourages lenders from extending credit.

As a result, even when loans are available, they are often poorly aligned with these enterprises' operational realities. In India, small businesses, particularly those operating informally, frequently face regulatory complexity, compliance costs, and limited awareness of formal financial procedures, which reduce their willingness to engage with microfinance institutions. Furthermore, the lack of integration between microfinance services and broader enterprise development support, such as access to technology, market linkages, or productivity-enhancing resources, limits the effectiveness of credit as a growth tool. Without complementary support mechanisms, small-scale businesses may remain financially constrained and unable to translate access to microfinance into sustainable expansion or improved competitiveness.

iv. Financial Access Challenges among Micro-Entrepreneurs

Micro-entrepreneurs in developing economies such as India and Tanzania face distinct financial access challenges stemming from economic vulnerability, informality, and social constraints. In Tanzania, many micro-entrepreneurs rely on seasonal or subsistence-based activities, resulting in irregular income patterns that make it difficult to meet formal financial institutions' standardized repayment schedules. Geographic dispersion and limited transportation infrastructure further restrict physical access to financial services, reinforcing reliance on informal lending networks. In India, despite significant advancements in digital financial infrastructure, many micro-entrepreneurs—particularly women and first-time business owners—remain excluded due to digital literacy gaps, limited access to technology, and limited familiarity with formal financial products. Social norms and household responsibilities often reduce women's ability to independently engage with financial institutions, weakening their financial autonomy. Across both contexts, the absence of gradual and inclusive financial pathways that allow micro-entrepreneurs to build credit histories over time contributes to persistent exclusion from formal finance. Consequently, many micro-entrepreneurs remain confined to low-productivity economic activities, unable to leverage access to finance for income or achieve long-term economic mobility.

d. Past actions

i. Improving Access of Small Business Owners to Microloans from Microfinance Institutions in Nigeria

<https://scholarworks.waldenu.edu/cgi/viewcontent.cgi?article=6669&context=dissertations>

Commercial banks deny most microloan applicants in Nigeria access to financial services because of the high risk of lending to individuals without tangible collateral. The purpose of this qualitative multiple case study was to explore small business owners' understanding of suitable funding options from microfinance banks in Nigeria to sustain their businesses beyond the first 5 years.

An investigation was conducted into how small business owners could obtain information on funding options most suitable for sustaining their businesses. Guided by the ethical banking operations framework, the strategies business owners used were examined to identify available funding options. A homogeneous sampling strategy was used to purposefully identify and select microfinance applicants with similar experiences across different funding options. Fifteen microfinance institution (MFI) customers participated in semi-structured interviews.

Additional data on MFIs was obtained from established secondary sources. Yin's 5-step process was used to analyse the data, with member checking and triangulation used for validation. Key findings included a lack of appropriate entrepreneur training, inadequate financial management, a skills gap, and an inability to interpret the bank's information on loan procedures. This revealed the need to develop ways for small business owners to access information on loan options more easily. MFIs may use the study's findings to enhance access to their financial services and promote growth, thereby increasing sustainable economic growth for both owners and the local communities they serve. Positive social change may be promoted through financial empowerment and job creation.

ii. Improving Access to Micro-Finance for Small-Scale Fishers in Sri Lanka

<https://openknowledge.fao.org/server/api/core/bitstreams/a262743b-8386-4ae3-8561-b069acf573ef/content>

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Organization of the United Nations (FAO) or AECID concerning the legal or development status of any country, territory, city, or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO or AECID in preference to others of a similar nature that are not mentioned.

“Fisheries Sector Development Plan1 says that “Investments in the small-scale sector too have suffered owing to the lack of development-oriented credit schemes and this has led to low incomes and persistence of indebtedness”. Evidence from evaluations of past activities suggests that formal credit programmes through cooperatives and rural banks, often supported by donor agencies, are often not successful, both in terms of the viability of lending institutions and the ability of intended beneficiaries to access credit. Informal savings schemes and credit markets are widely developed because they are closer to users, more flexible, and better adapted to their needs.

Consequently, there is growing recognition of the importance of microfinance as a crucial development tool, yet it has not yet been fully reflected in fisheries policies. This situation was further revealed by the baseline survey conducted by RFLP, which found that the main borrowing sources for fishers were friends and relatives, commercial banks, and the Cooperative Rural Bank, at 25.6%, 24.4%, and 19.2,%, respectively. Women were more likely to approach micro-finance institutions (MFIs) for credit than men, with security being provided by group/member guarantee (90.2 %).”

iii. Handbook Expanding Access to Finance among Micro-, Small and Medium-sized Enterprises (MSMEs) for Accelerating Progress towards Sustainable Development Goals (SDGs) in Ethiopia.

<https://sdgs.un.org/sites/default/files/202505/HANDBOOK%20FOR%20FINANCIAL%20LITERACY%20CLUSTERING%20AND%20SCF%20FOR%20MSMEs%20in%20ETHIOPIA.pdf>

The training aimed to enhance the financial literacy of Micro, Small, and Medium Enterprises (MSMEs) in Ethiopia, with a focus on their access to finance through clusters and supply chain financing. Participants were expected to gain a comprehensive understanding of financial concepts, improve their creditworthiness, and explore innovative financing options. The training is structured into two modules, each comprising several units that address specific topics relevant to MSMEs.

The first part of the module addresses the challenges MSMEs face, including access to finance, market competition, and regulatory constraints. It

covers key financial concepts, Key Financial Concepts, Traditional & Nontraditional financing Options, how to improve Creditworthiness and Business Pitching, Strategic Financial Planning, Accessing Affordable Finance through Fintech and Digital Finance, Digital Marketing Strategies for MSMEs, and Policy Landscape for Expanding MSME Access to Affordable Finance in Ethiopia. The primary objective of Module One was to equip MSME participants with essential financial knowledge and skills necessary for effective financial management and access to finance. Participants were expected to understand the role of MSMEs in sustainable development, key financial concepts, and various financing options available to them.

The second module provides MSMEs in the manufacturing sector with strategic financing approaches, such as cluster-based lending and supply chain-based approaches to secure financing and expand access to capital necessary for growth and sustainability. It covers the concepts and a holistic understanding of clustering, types of clusters, and financing options, as well as a comprehensive understanding of supply chain management, supply chain integration, and supply chain financing mechanisms that can help MSMEs in Ethiopia and other developing countries to access capital. The objective was to provide participants with insights into how clustering and supply chain management can enhance access to finance.

iv. European Microfinance Network

European Microfinance Network is an NGO that connects microfinance institutions, social finance organizations, and other stakeholders throughout Europe (EU and candidate countries). Since 2003, with the support of members from EU and candidate countries, EMN has played an important role in fostering collaboration, encouraging innovation, and facilitating knowledge sharing across the microfinance ecosystem. They partner with EU institutions such as the EIF and the EIB, as well as corporations, to implement projects across Europe. EMN, together with other partners, also developed the Code of Good Conduct to ensure high standards in microfinance operations and protect clients' interests.

The European Microfinance Network (EMN) is a Brussels-based, member-based not-for-profit organisation that promotes microfinance as a tool to combat social and financial exclusion in Europe through self-employment and the creation of microenterprises. It is the network's mission to facilitate capacity building and to advocate for the sector.

EMN's core membership is made up of microfinance Practitioners. These are social purpose organisations that deliver financial services to underserved communities or facilitate access to such services. Partners and corporate members also support the work of the network; organisations such

as national networks, academia, service providers to the sector, or banks that are involved in European microfinance issues and that support the development of microfinance in Europe.)

v. Small Enterprise Development: An Introduction to the Policy Challenge (ILO)

https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40ed_emp/%40emp_ent/documents/publication/wcms_093973.pdf

Over the last 15 years, small enterprises have been recognized as significant employers in both developed and developing countries. Their ability to quickly adapt to changing circumstances and to find niche markets, along with their potential to innovate, has given them a critical edge in the marketplace. As a result, the number of small enterprises has grown, as has their employee headcount. However, this view is offset by the growth of small enterprises, driven by rising unemployment and poverty, which have forced many people into this sector as a means of survival rather than in pursuit of new market opportunities.

Small enterprises can be difficult, dangerous, and insecure places of employment with low financial rewards. The ILO has been working with its members and constituents to support the growth of small enterprises and the employment they create. The ILO promotes new employment opportunities that are secure, well compensated, and equitably rewarded, while ensuring safe working conditions. The ILO's International Focus Programme on Boosting Employment through Small Enterprise Development (SEED) assists its constituents in designing and reviewing small enterprise policies and laws. Providing financial and business development services is an important way to promote small enterprises and drive employment growth in this sector. These interventions address the internal constraints that many small enterprises experience.

However, it has become clear that the design of an 'enabling' policy and legal framework also plays a significant role in promoting small enterprises. Such a framework is external to the enterprise but can encourage employment practices in small enterprises that are conducive to good-quality jobs. Numerous policy and legal constraints and biases can erode small enterprises' capacity to create new employment opportunities, foster technological innovation, and generate wealth. Similarly, even when the policy and legal instruments themselves support small enterprise operations, their enforcement and implementation may be inadequate or inefficient.

vi. National Small Enterprise Act, 1996- Incubation Business Development Service (IBDS) Policy

The Incubation and Business Development Services (IBDS) Policy Framework published by South Africa's Department of Small Business Development represents a strategic effort to strengthen support for micro, small, and medium-sized enterprises (MSMEs) by addressing critical systemic and operational shortcomings within the small enterprise ecosystem. This policy framework is rooted in the belief that MSMEs and cooperatives — defined under the National Small Enterprise Amendment Act — are fundamental to achieving broader goals of job creation, economic transformation, poverty reduction, and inclusive growth, consistent with the country's National Development Plan Vision 2030.

The motivation for the IBDS policy arises from persistent structural constraints faced by small enterprises, including limited access to finance, inadequate market opportunities, and gaps in business skills and technical capacity. These constraints contribute to high enterprise failure rates, especially in early startup phases, and limit the sector's potential to contribute to national economic objectives meaningfully. The policy therefore seeks to reposition and standardize support services that promote enterprise sustainability, competitiveness, and growth.

A central premise of the framework is that fragmentation within the support ecosystem undermines service effectiveness. This fragmentation refers to the lack of coordination among incubators, business development service providers, financial institutions, government agencies, universities, and private sector partners. Without a cohesive and integrated approach, support remains disjointed, duplicative, or inaccessible to many entrepreneurs, especially those in underserved rural or peri-urban areas. To address this, the IBDS policy emphasizes more coherent collaboration and alignment among stakeholders to ensure business support services are delivered efficiently and consistently.

Another critical issue identified in the framework is the inconsistent quality and professionalization of services offered by incubation programs and business development providers. Because service providers differ widely in capacity, standards, and delivery methods, entrepreneurs receive uneven support that often fails to equip them with the tools needed for sustainable growth. The policy framework, therefore, calls for uniform standards, accreditation systems, and quality assurance mechanisms to ensure that all supported enterprises benefit from competent and reliable assistance.

Access to adequate funding is a persistent challenge for both enterprises and incubators, with insufficient financing limiting enterprise growth and incubators' ability to deliver high-quality services. Barriers such as regulatory compliance costs, geographic isolation, and limited integration with value chains further restrict market access and business scalability. Recognizing these multifaceted challenges, the policy proposes targeted

interventions that expand financial inclusion, enhance market linkages, and support sector-specific expertise throughout the enterprise lifecycle.

The framework's vision is not only to provide immediate support but also to build a resilient ecosystem that fosters enterprise innovation, capacity building, and long-term competitiveness. In doing so, the IBDS policy aims to create a more inclusive and productive environment for small enterprises, enabling them to contribute more fully to South Africa's economic growth and employment outcomes.

3. Questions to ponder

- 1.** How can governments adjust their economic and financial policies to make it easier for MSMEs to get financing without harming the overall economy?
- 2.** What can central banks and financial authorities do to support microfinance access while keeping the financial system safe and stable?
- 3.** How can international organizations such as the World Bank or IMF help countries improve access to finance for MSMEs?

4. How can cooperation between governments, private investors, and international institutions improve funding opportunities for MSMEs?
5. In what ways can tax reductions or financial incentives encourage banks and microfinance institutions to support MSMEs more actively?
6. How can MSMEs be encouraged to join the formal financial system without facing too much bureaucracy or high costs?
7. How can digital banking and financial technology help expand microfinance access in rural or low-income areas?
8. What steps should be taken to prevent MSMEs and micro-entrepreneurs from falling into excessive debt as access to finance increases?
9. How can better access to finance for MSMEs contribute to long-term economic growth and financial stability?

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<https://openknowledge.fao.org/server/api/core/bitstreams/a262743b-8386-4ae3-8561-b069acf573ef/content>

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<https://www.european-microfinance.org/>

https://social-economy-gateway.ec.europa.eu/emn_en

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