



Photo credit: Dorinser/ World Bank

# PROTECTING VULNERABLE MSMEs

## The role of access to finance.

April 2025



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# Outline





- 1  Importance of MSMEs for Growth
- 2  Why Protecting MSMEs from Disasters Matters?
- 3  Selecting the Right Firms to Support
- 4  Financial Instruments for Disaster Risk Financing



Photo: Farhana Asnap / World Bank

# MSMEs drive jobs, growth, well-being and security

## MSMEs are the key for accelerating growth

### MSMEs add most jobs



In emerging markets, most formal jobs are generated by MSMEs, which create **7** out of **10** jobs

### MSMEs outpace large businesses in growth



Out of the **50** fastest-growing businesses in Europe in **2024**, **40%** were small, **40%** were medium-sized, and only **20%** were large.

### MSMEs in some sectors allow youth to create wealth and enhance social mobility



Growth of MSMEs in towns and rural areas creates economic opportunities and supports population stability.

### Agile and strong MSMEs in critical sectors boost strategic security in the face of global uncertainties



About **50%** of growing MSMEs are in innovative sectors, while almost all large businesses operate in traditional sectors such as construction and energy.

# Environment can make or break great businesses

**Shocks bring high-potential ventures to square one, stalling innovation, productivity growth and structural transformation**



# How do businesses lose liquidity and productivity during shocks?

The impact channels are complex and vary depending on the type of disaster and industry characteristics.

## Infrastructure



E.g., **2011** floods in Thailand. The floods caused a total loss of approximately **US\$45.7 billion**, which was about **5%** of Thailand's GDP. Out of this, **US\$32 billion** was attributed to losses in the manufacturing sector.

## Inputs



E.g., **2010** floods in Pakistan. The floods killed over **10 million** livestock and severely damaged crops, cutting agricultural output by over **15%**. The decline hit related sectors, especially textiles, which depend heavily on local cotton.

## Market



E.g., **2011** Tōhoku earthquake, Japan. The event is estimated to have reduced the growth rate of firms by **2.9** percentage points.

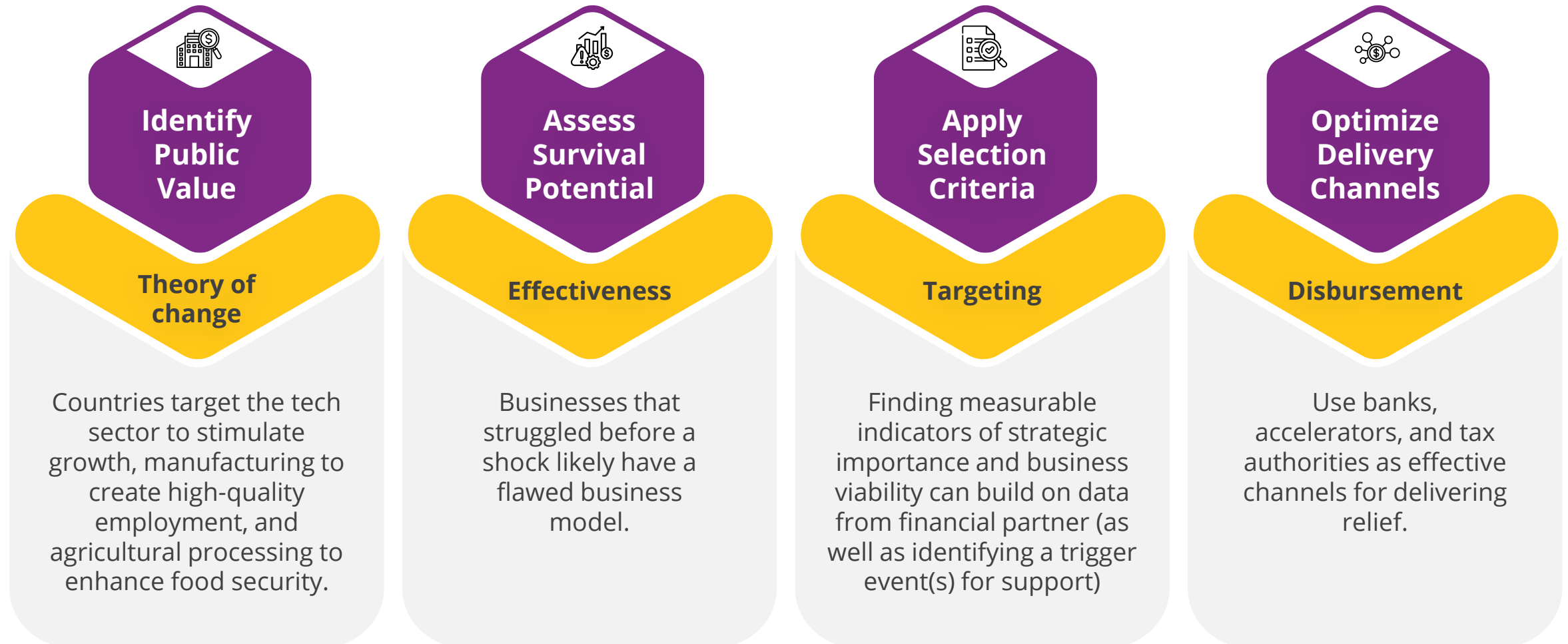
## Finance



E.G., Hurricane Katrina, US. After the hurricane, SMEs struggled to access finance due to collateral damage and credit concerns. Of **318,953** loan applications to the Small Business Administration, **55%** were denied. Within four months, a backlog of over **204,000** applications caused major delays in financial support.

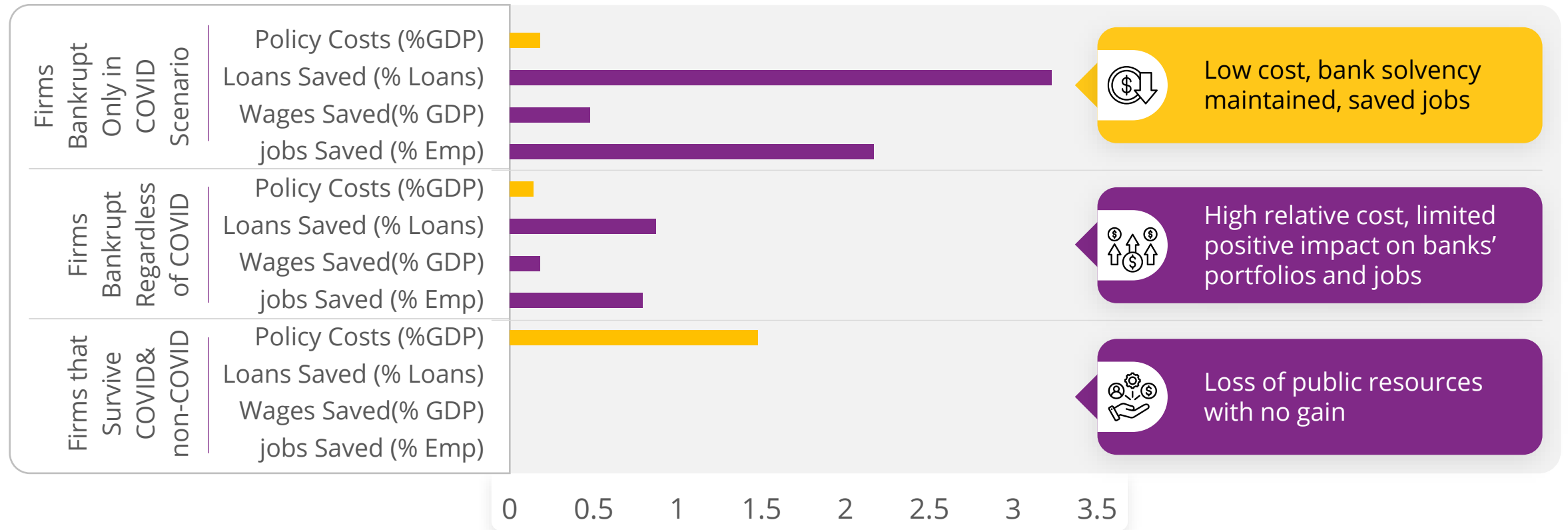
# Careful selection of businesses maximizes socio-economic benefits at the lowest cost.

**Focus on clear rationale, efficiency, targeted support, and precise delivery.**



# COVID-19 Support for MSMEs Highlighted the Critical Role of Targeting in Preventing Inflation and Market Distortion

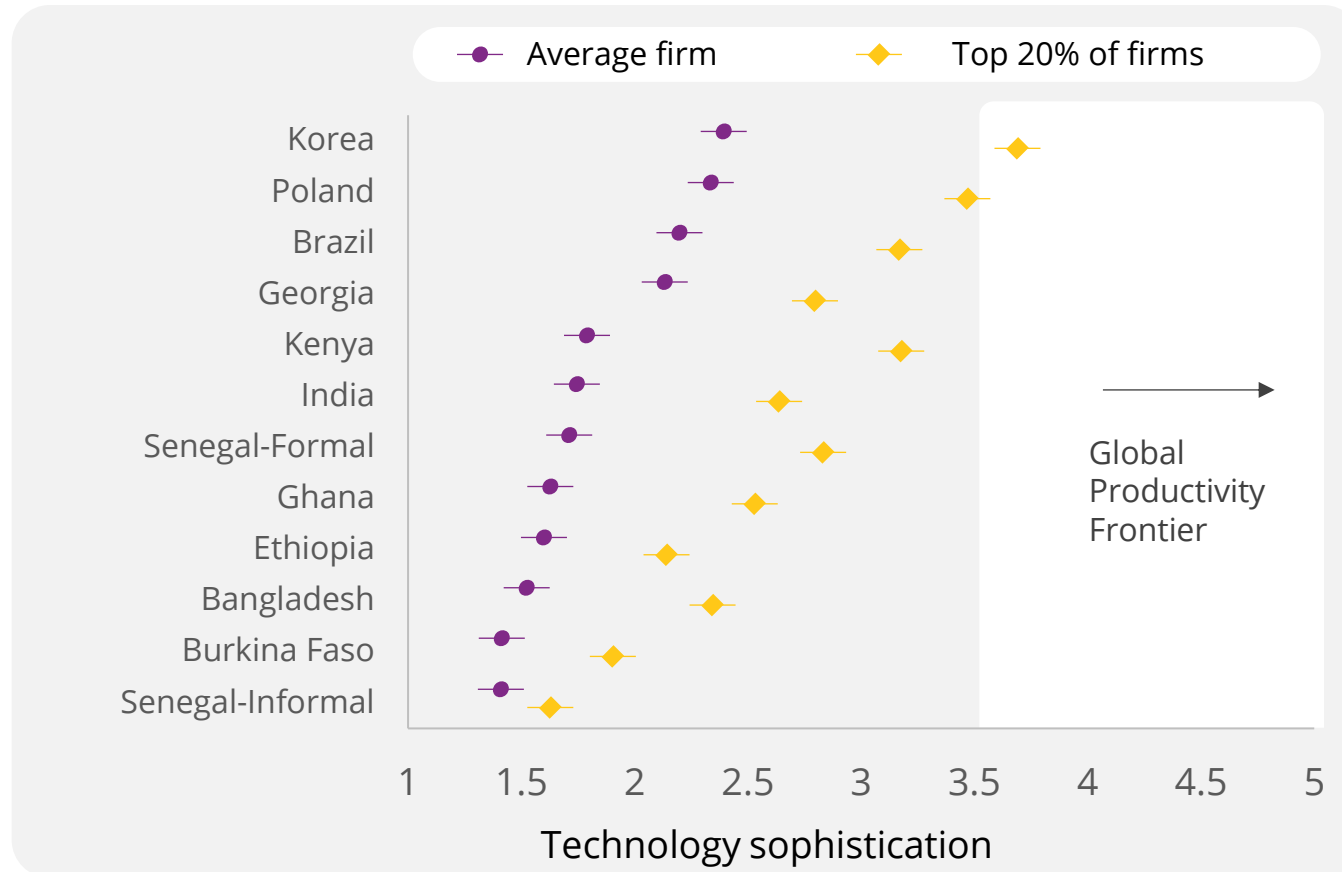
**Supporting MSMEs helps preserve valuable, productive jobs and strengthens the financial sector's confidence and willingness to finance them.**







Source: Kalemli-Ozcan, S., Gourinchas, P.-O., Penciakova, V., & Sander, N. (2020). COVID-19 and SME Failures. International Monetary Fund, 2020(207), 55. ISBN: 9781513557748. ISSN: 1018-5941.

# Retaining High-Potential MSMEs Is Crucial for Sustained Economic Growth

To protect taxpayers' interests and respect market forces, the focus must be on businesses with a proven track record.



-  Strong growth trajectory
-  Innovation
-  Job creation
-  Long-term resilience







Source: World Bank. (2023). A balancing act: Opportunities for making growth more inclusive during challenging times. World Bank.



# Leveraging existing financial sector or other existing delivery channels is crucial for precision and efficiency

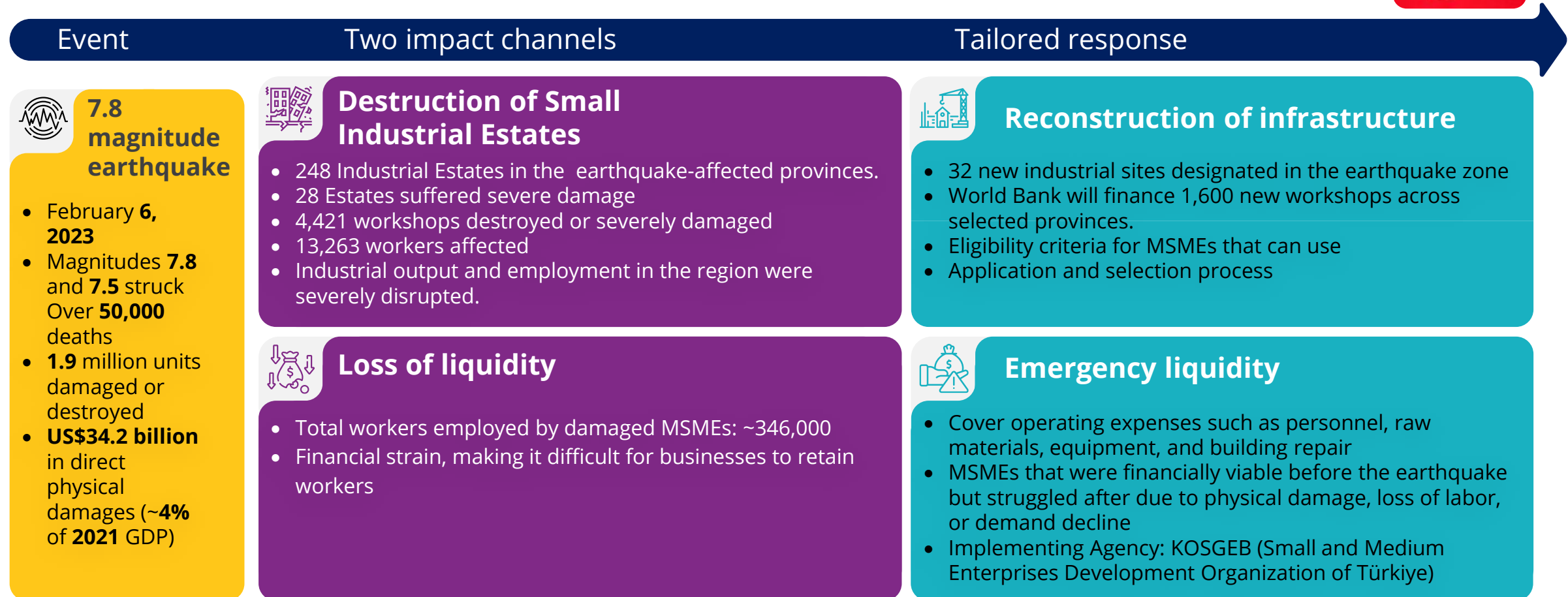
Instruments should be selected based on the peril, type and severity of shock and the nature of the industry.

A combination of borrowing and risk transfer mechanisms can support a tailored suite of financial instruments for MSMEs.

	 <b>Emergency Loans</b>	 <b>Disaster Recovery Loans</b>	 <b>Factoring Services</b>	 <b>Insurance-Linked Products</b>	 <b>Supply Chain Financing</b>	 <b>Bridge Loans</b>
<b>Description</b>	Immediate financial support for climate-related shocks.	Financial assistance to support recovery from natural disasters.	Selling accounts receivable for immediate cash.	Insurance-integrated solutions to provide additional liquidity.	Extending payment terms to suppliers or clients to maintain flow.	Short-term loans to cover immediate expenses or debt servicing.
<b>Case Study</b>	Large-scale floods affecting diverse sectors with varying needs in a region.	Infrastructure damaged by an earthquake.	A shock impacts short-term liquidity of otherwise reliable customers.	Businesses whose operational financing depends on healthy collateral.	Trade disruptions require collaboration with less liquid suppliers.	Shock-exposed, highly leveraged, fast-growing businesses.

# 2023 earthquakes in Türkiye affected MSMEs through two key impact channels, necessitating a tailored financial response

**“We experienced a financial earthquake, in addition to human suffering and destruction,”**  
**Edip Kiliçlar, owner of Kaltek Machinery**



# Best principle of DRF would have further improved efficiency, and timeliness of the response



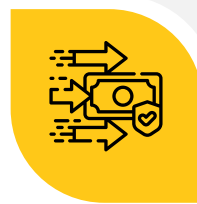
## Timeliness of Funding

Despite the World Bank's record speed in mobilizing funds—approval within four months and disbursement in under a year—the process could have been significantly faster. Pre-arranged financing mechanisms might have reduced this timeline to just a week.



## Disbursement of Funds

KOSGEB was able to leverage its existing databases to rapidly identify eligible firms. In contrast, procurement for Small Industrial Estates (SIEs) had to be initiated from scratch, which slowed down implementation.



## Data and Analytics

Access to detailed exposure information would have enabled the development of more effective resilience-building policies.



## Disaster Risk Layering

All funding had to be mobilized ex-post, amid rising debt costs. The absence of pre-arranged instruments strained public finances, with the state bearing most costs as MSMEs were largely uninsured.





Photo credit : Karandaaz Pakistan / World Bank

# Pakistan

## Resilient and Accessible Microfinance (RAM) Project

Supporting Lives and Livelihoods through Microfinance



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Technical underpinnings of the Climate Risk Facility



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# Contents

- 1 Background
- 2 Climate Risk Facility
- 3 Risk layering concept
- 4 Data requirements and sourcing responsibility
- 5 Process / next steps



# Background - Impact of Microfinance Sector in Pakistan So Far

Pakistan's microfinance sector has improved access to finance over the past decade, particularly for financially excluded women, farmers, and the poor.

## Key Highlights



**76%** of all financial sector borrowers borrow from microfinance sector



**46%** of active borrowers are in rural areas



Typical borrowers fall in or below the 3rd quintile by income distribution



**45%** of active borrowers are women

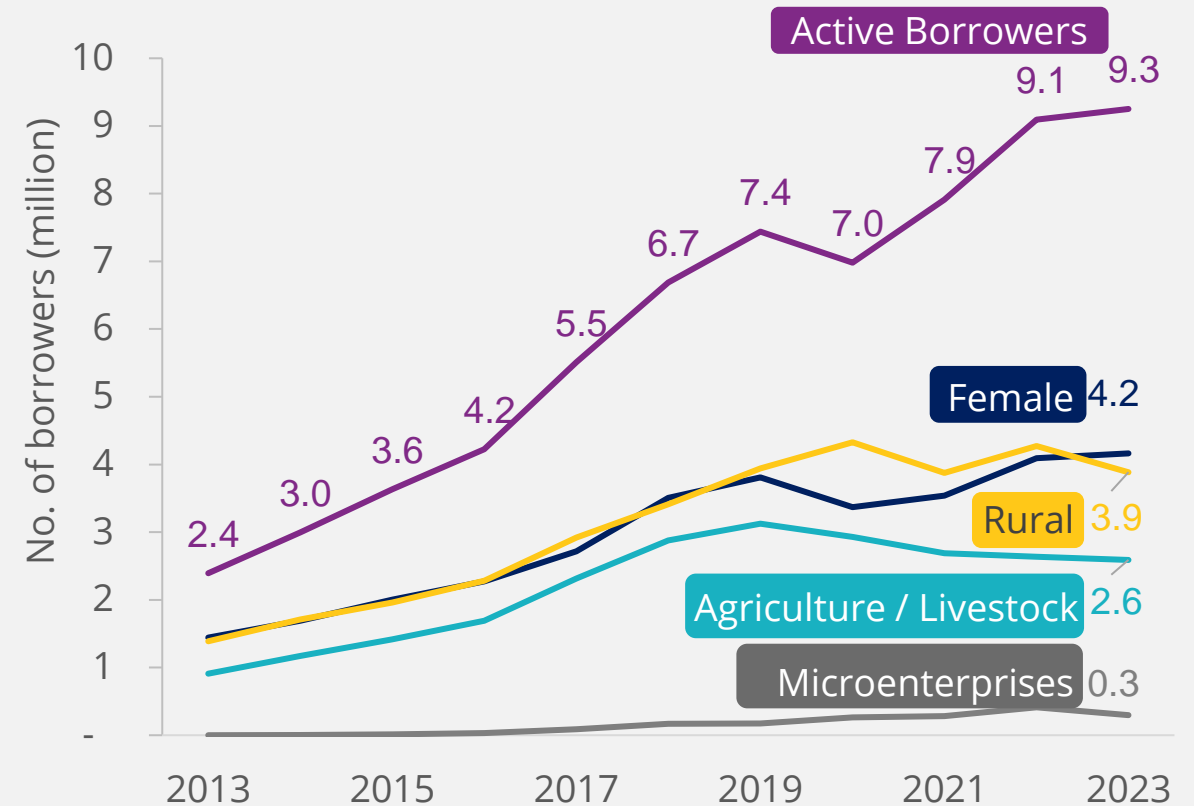


Cumulatively, the sector has supported creation of 14.4 million jobs.



**34%** of loans in agriculture are made by the microfinance sector

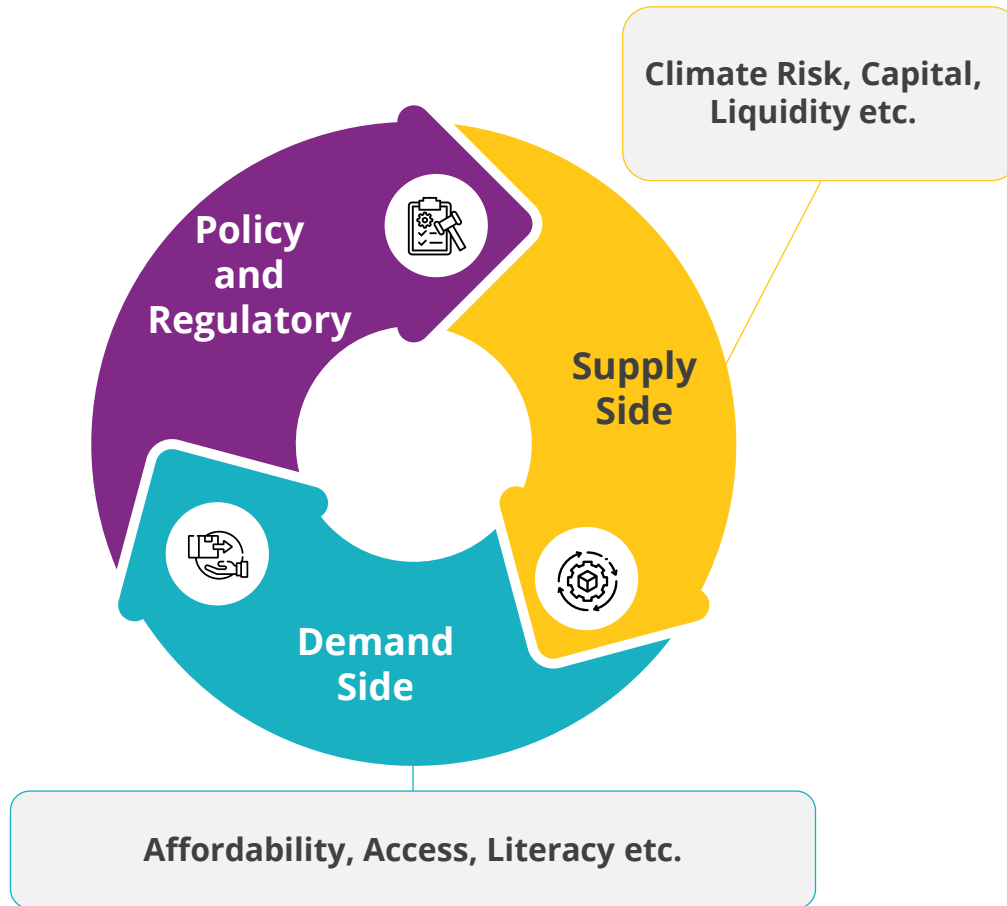
## Growth Trajectory (2013-2023)



Source: Pakistan Microfinance Network (PMN).

# Background - Key Challenges

Despite the overall growth realized in recent years and extensive support from the WB and other multilaterals, the sector faces several structural challenges which are stifling **growth potential**.



While some challenges need public intervention (e.g. market failures), others would need private intervention.



## Capital

Microfinance Banks have seen capital eroded as a result of COVID-19 related write-offs and rising NPLs.



## Liquidity

MFIs (non-deposit taking) are unable to grow as they face liquidity shortages. Investors are looking for guarantees before committing funds.



## Climate Risk

Repeated climatic shocks have had a deep impact on the lending portfolio of microfinance providers. **2022 floods impacted areas accounting for 15-20 percent of borrowers of microfinance sector and 35-40 percent of gross loan portfolio.**

# Overarching Design – Climate Risk Facility (CRF)

**Pre-Climate Event Instrument**



**Innovative Agriculture Liquidity (USD20 million)**

**Post-Climate Event Instrument(s)**



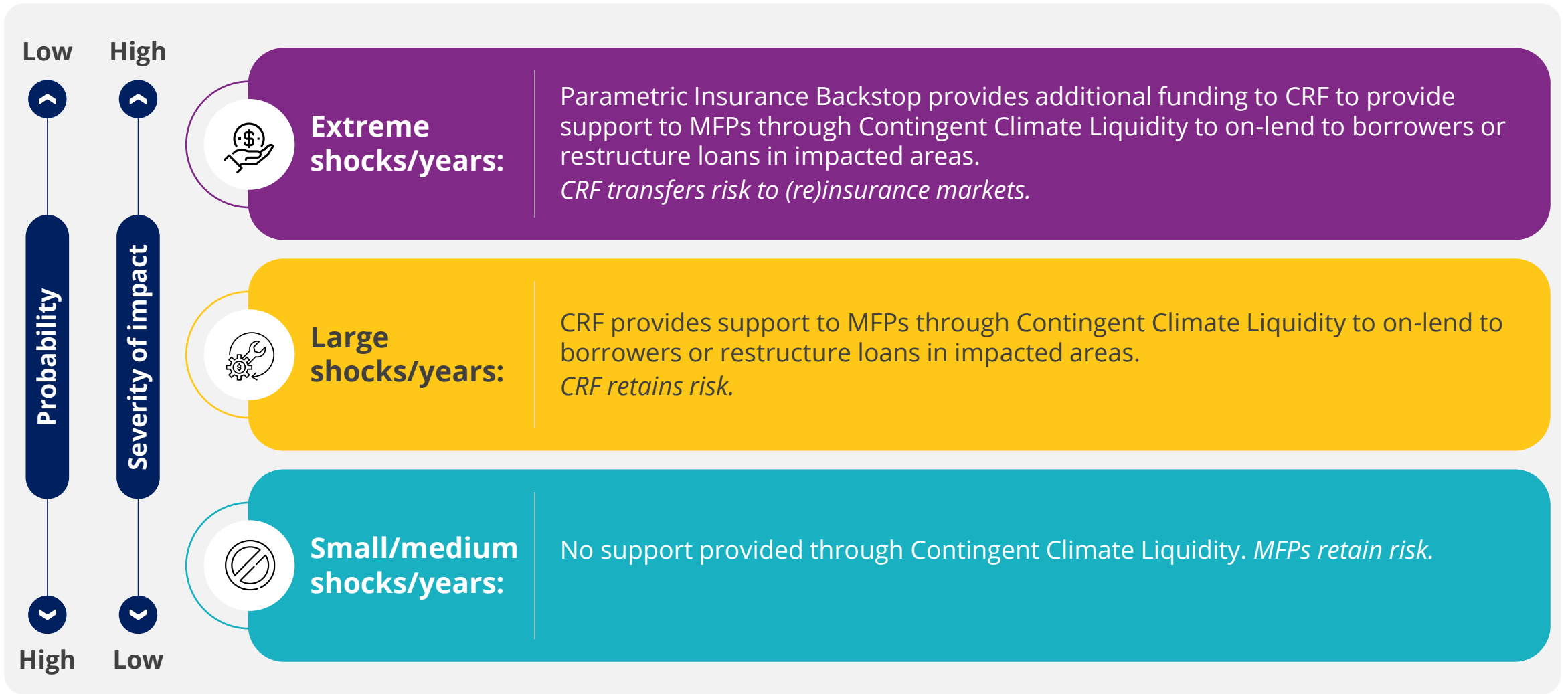
**Climate Contingent Liquidity (USD105 million)**



**Facility is backed up by international reinsurance**



# Risk layering – how it is applied to the Climate Risk Facility?



# When will the Climate Risk Facility support the Microfinance Sector post climate event?

**Avenue 1:** The government declares an emergency/calamity (soft trigger) and impact is assessed/calculated to be severe (hard trigger)



**Government** declares an emergency



**CRF** asks designated entity (e.g., broker) to calculate impact

**Calculation entity:**



**calculates impact** of emergency based on relevant data



**determines quantum of funding** available for MFPs for liquidity within 2 weeks of declaration of emergency



**MFPs** request liquidity from CRF within 6 weeks of declaration of emergency



Based on calculated impact and request from MFP, **CRF** determines:

- Eligibility of MFPs
- Products for each MFP
- Conditionality



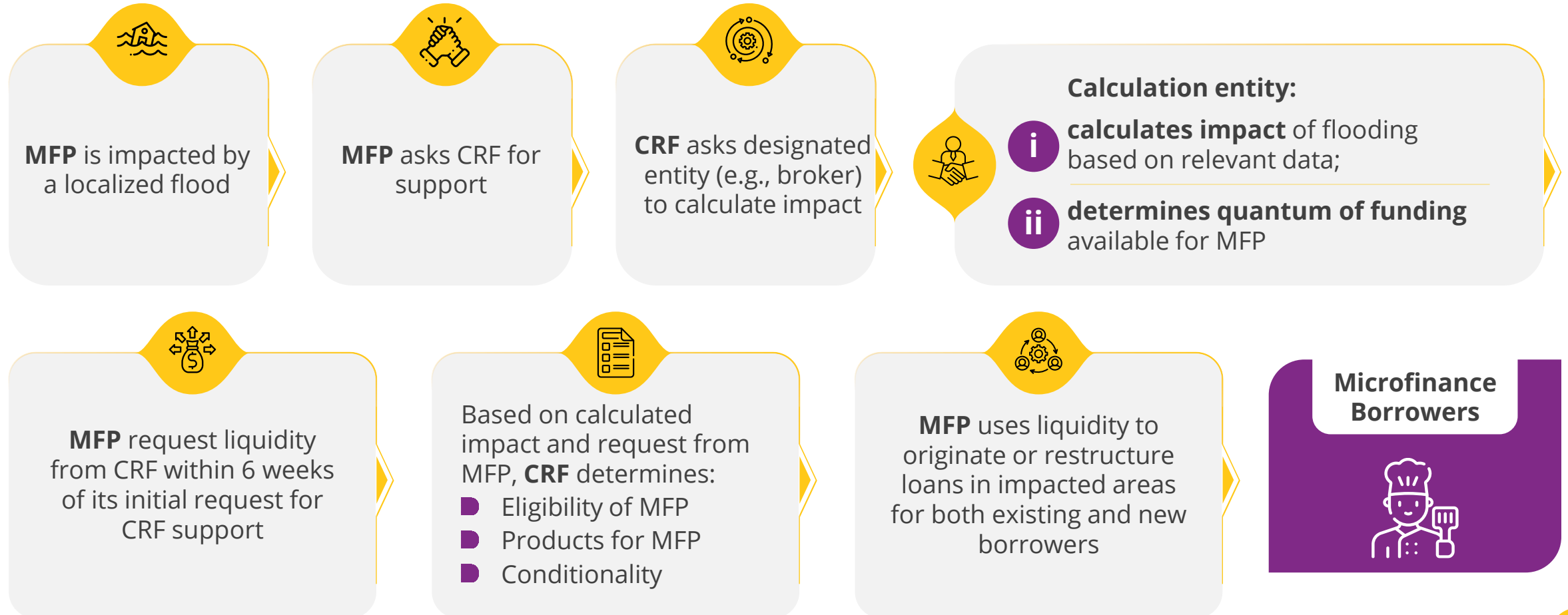
**MFPs** use liquidity to originate or restructure loans in impacted areas for both existing and new borrowers

**Microfinance Borrowers**



# When will the Climate Risk Facility support the Microfinance Sector post climate event?

**Avenue 2:** MFP seeks funding following an event (soft trigger) and impact is assessed/calculated to be severe (hard trigger)



# Game Time: Design an MSME Protection Strategy!

**Your Mission:** You are in government for a country exposed to earthquake and flood risk. Create a disaster protection strategy for MSMEs that helps them survive, recover, and thrive, and that creates good value for tax-payers!



## Which Business?

Choose an MSME type (e.g., textile maker, food processor, tech startup).



## What Against?

Using the same scenario as used in this morning's exercise for households.



## What Happens in a Shock?

Describe the impact on the business (e.g., cashflow loss, supply chain disruption, asset damage).



## What Do They Need?

Choose or design the right support tools (e.g., emergency loans, insurance, relocation help, digital tools).

**Build a smart, targeted protection plan for your country that balances impact, cost, and speed.**

Please nominate a group spokesperson and prepare a proposal (20 mins)



Photo: Visual News Associates / World Bank



**Disaster Risk Financing  
& Insurance Program**



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**Thank you!**