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Education and Research EAER
State Secretariat for Economic Affairs SECO

POSITION PAPER

Building Financial Sectors for Growth

A well-functioning financial sector is a cornerstone of resilient and inclusive economic growth. Stability, development, and integrity are not stand-alone goals — they are interdependent pillars that enable financial systems to serve both the public and private sectors effectively. SECO's support helps build the foundations for sound financial sector governance, stronger local currency markets, and enhanced transparency. By promoting these principles, SECO contributes to unlocking investment, improving livelihoods, and strengthening economic sovereignty in partner countries.

Why does the financial sector matter?

The financial sector is a key driver of economic activity and private sector development. It supports macroeconomic stability, mobilizes savings, and channels capital into productive investments. A well-regulated and diverse financial system contributes to economic growth and poverty reduction by optimizing the allocation of domestic resources and making financial services more accessible. Conversely, weak and poorly regulated financial sectors can destabilize economies, as seen in past financial crises.

WEMU's approach

The macroeconomic support section at SECO focuses on three key areas: 1) Financial sector stability, 2) financial sector development and 3) financial sector integrity. These topics get complemented with programs on financial inclusion, implemented through the private sector development section at SECO.

SECO Division
Macroeconomic Support (WEMU)

Key partner agency
World Bank Group, International Monetary Fund, European Bank for Reconstruction and Development, Graduate Institute Geneva, Egmont Group

WEMU global programs
Finance for Development
Financial Sector Stability Fund
Bilateral Assistance and Capacity Building for Central Banks
Sustainable Long-Term Finance Facility
AML/CFT
Money Markets Development Program

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European Bank for Reconstruction and Development

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GRADUATE INSTITUTE OF INTERNATIONAL AND DEVELOPMENT STUDIES

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OF FINANCIAL INTELLIGENCE UNITS

1. Financial Sector Stability

Why it matters?

For an economy to grow sustainably, it needs a financial system that is stable and predictable. Businesses require reliable conditions to invest and create jobs. Households need confidence that their savings are secure. A sound financial sector—where banks and institutions are well-regulated and resilient—builds trust and supports long-term economic activity.

Take price stability as an example: when inflation is low and stable, it helps people plan ahead, protect their income, and make informed financial decisions. It also gives investors confidence in the value of future returns. Achieving this kind of stability requires strong coordination between financial institutions, central banks, and regulators.

At the same time, policymakers must strike a careful balance: promoting economic growth while safeguarding stability. Excessive risk-taking or weak oversight can lead to crises that undo years of development. Robust regulation and prudent risk management help countries withstand shocks and ensure lasting progress.

SECO funded projects

To seize these opportunities and tackle the associated challenges, SECO supports a range of projects aimed at building stable, predictable, and resilient financial systems.

- **The IMF's Financial Sector Stability Fund** enables in-depth financial sector diagnostics. Based on these findings, the IMF and the World Bank follow up with targeted technical assistance.
- **The World Bank Finance for Development Umbrella Trust Fund** is the Bank's main vehicle to provide support to enhance financial stability and inclusion.
- **The Bilateral Assistance and Capacity Building for Central Banks** program seeks to strengthen the capacity of central banks to conduct sound monetary policy and to carry out their responsibilities as financial sector regulators, supervisors, and key actors in monitoring and mitigating systemic financial risks.

2. Financial Sector Development

Why it matters?

To support long-term development, countries need strong local financial markets and a mix of private investors. When local markets work well, it's easier for businesses and governments to borrow money in their own currency, which reduces risks. It also helps central banks do their job better and allows both public institutions and private companies to manage their finances more effectively.

SECO funded projects

To help strengthen local financial markets and support long-term development, SECO works with partners through the following projects:

- **The European Bank of Reconstruction and Development Money Market program** supports the development and functioning of local short-term financial markets (money markets) in partner countries.
- **The World Bank's Sustainable Long-Term Finance Facility** contributes to building deep, broad and stable capital markets in emerging markets and developing countries, and to developing policy, institutional and regulatory frameworks that support the financing of strategic sectors in partner countries.

3. Financial Sector Integrity

Opportunities

Financial Sector Integrity (FSI) ensures that financial systems operate transparently and prevent illicit activities such as money laundering, terrorist financing, and corruption. While often associated with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), FSI extends beyond these measures to include law enforcement, judicial oversight, and regulatory frameworks. A strong and trustworthy financial system is essential for economic growth, as it facilitates investment, supports businesses, and integrates economies into the global financial network.

SECO funded Projects

To strengthen financial integrity and support transparent financial systems, SECO contributes to the following initiatives:

- **The IMF AML/CFT program** provides technical assistance to help countries implement robust AML/CFT frameworks, improving transparency in sectors like commodity trading, and strengthening tax governance to combat profit shifting and tax evasion.
- In addition, SECO supports the **Egmont Centre of FIU Excellence and Leadership** to support financial intelligence units worldwide.

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WEMU / 2026

Annex 1: Overview of WEMU's Financial Sector Engagement

The Finance for Development (F4D) Umbrella Trust Fund strengthens financial systems in low- and middle-income countries by building resilient, diverse, and inclusive financial sectors. It supports economic growth, financial inclusion, and crisis resilience through technical assistance in MSME finance, regulation, insolvency, and digital finance. By consolidating financial sector reforms under one framework, F4D enhances coordination and addresses emerging challenges like climate risks and digital finance, ensuring adaptability in a changing global landscape.

Example: Albania
F4D in Albania works to expand green and innovative finance for MSMEs and farmers while strengthening financial resilience against climate and disaster risks. It focuses on (1) improving access to finance by diversifying financial products and promoting green finance, (2) enhancing financial supervision by supporting the Albanian Financial Supervision Authority (AFSA) in aligning regulations with EU standards, and (3) building financial resilience by integrating disaster risk financing into macro-fiscal policy and developing compulsory earthquake insurance. The project is funded by SECO and the Risk Finance Umbrella Trust Fund.

Implementing Partner: The World Bank

Project Name: Finance for Development Umbrella Trust Fund (F4D)

The Financial Sector Stability Fund (FSSF) aims to help countries establish sound prudential frameworks and safety nets to minimize risks associated with financial inclusion and sector deepening. The initiative is structured around two mutually reinforcing modules. The financial sector reform module provides diagnostic assessments to identify weaknesses in financial systems and institutional capacities, followed by prioritized action plans for well-sequenced reforms and follow-up assistance. The financial sector statistics module ensures policymakers have access to key data to assess financial stability risks, vulnerabilities, and sectoral interconnectedness.

Example: Uzbekistan
The FSSF program in Uzbekistan began with a diagnostic review in 2021, identifying key gaps in the country's financial sector transformation. Based on these findings, the program provided technical assistance to the Central Bank of Uzbekistan (CBU), supported by a long-term expert. This collaboration led to the publication of Uzbekistan's first-ever Financial Stability Report in October 2022. Additionally, the expert provided hands-on training to strengthen financial stability, including developing a macroprudential policy framework and creating a methodology for calibrating capital buffers for systemically important banks.

Implementing Partner: International Monetary Fund (IMF)

Project Name: Financial Sector Stability Fund (FSSF)

The **Bilateral Assistance and Capacity Building for Central Banks (BCC)** program supports central banks in emerging countries to be more effective, through tailored capacity building. The BCC programme aims to support partner central banks in emerging countries in building the analytical and technical expertise to conduct effective monetary policy, promote stable and efficient financial sectors, and be more operationally sustainable.

Example: Colombia
The Central Bank of Colombia used BCC support to analyze the digital payments ecosystem in Colombia and discuss possible solutions with the private sector. Based on these results, they opted to design a new instant retail payments system to foster financial inclusion and make business transactions easier. BCC further helped in designing of the governance structure, the business case, the pricing, the vendor implementation plan, and the electronic seal design. The instant retail system (BRE-B) will become operative in the second half of 2025.

Implementing Partner: Graduate Institute, Geneva

Project Name: Bilateral Assistance and Capacity Building for Central Banks (BCC)

The World Bank's **Sustainable Long-term Finance Facility (SFF)** aims at building deep, broad, and stable capital markets in emerging markets and developing countries and developing policy as well as institutional and regulatory frameworks supporting financing of strategic sectors through the private and public capital markets. It also supports the development of enabling institutional and operational pre-conditions to establish a supply of investable assets linked to climate change and sustainable development goals. In parallel it helps develop the policy, regulatory and institutional conditions for institutional investors' engagement in these strategic areas of investment in line with their fiduciary mandate.

Example: South Africa
The South Africa SFF program is addressing the country's large infrastructure gap while balancing the decarbonization agenda and the ongoing energy crisis. A key achievement is the progress on the blended finance platform, designed to optimize fund deployment and attract private sector investment. This platform enables structured engagement with donors, development finance institutions, and partners to support South Africa's infrastructure and SDG goals efficiently. Further progress includes the development of a credit-guarantee vehicle and an MOU between the World Bank and Western Cape, supporting a pipeline of viable projects.

Implementing Partner: The World Bank

Project Name: Sustainable Long-Term Finance Facility (SFF)

The **Money Market Development Programme (MMDP)** strengthens economic growth and resilience in EBRD and SECO partner countries through supporting the development of their short-term financial markets (money markets). Well-developed money markets are instrumental to increase local currency lending, improve liquidity management in the public and private sector and allow central banks to effectively implement their monetary policy. This, in turn, improves public and private debt sustainability, access to finance, financial sector stability, and inflation control.

Example: Tajikistan
The MMDP program assist the National Bank of Tajikistan (NBT) in improving its capacity to affect the money market and transmit its monetary policy intentions more effectively with a view to supporting the transition to inflation targeting. The effectiveness of the NBT's monetary operations is hindered by the relatively small money market, which is still in its early stages of development, with high credit risk perceptions leading to market segmentation and significant liquidity hoarding. The MMDP provides technical assistance to NBT on the analysis of the liquidity in the financial system, on streamlining its liquidity operations, and on how to communicate the actual liquidity situation, its liquidity operations, and its liquidity forecast to the money market participants.

Implementing Partner: European Bank for Reconstruction and Development (EBRD)

Project Name: Money Market Development Programme (MMDP)

The AML/CFT Trust Fund at the IMF aims to protect the integrity and stability of financial systems globally and at the national level. It helps countries strengthen financial sector integrity, integrate into the global financial system, and improve transparency and access to finance. The program provides technical assistance through four key modules: (1) national strategies and coordination, (2) risk assessment, (3) legislation, and (4) structures and tools. These can be tailored to each country's needs. Additionally, Phase III focuses on improving correspondent banking relationships (CBRs) to facilitate international financial connections for beneficiary countries.

Example: Ghana
The AML/CFT Trust Fund financed (and conducted) a Governance Diagnostic Assessment in Ghana. The recommendations on international anti-corruption cooperation, beneficial ownership information and supervision of designated non-financial businesses and professions will support Ghana in the formulation of policies to underpin the institutional strengthening in the fight against corruption.

Implementing Partner: International Monetary Fund (IMF)

Project Name: Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT)