

*Towards a private sector enabling environment*

*A Facility financed by the European Union through the European Development Fund*

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## 2<sup>nd</sup> High-level meeting on SME financing in ACP countries

*During a second High-level Meeting, hosted by the ACP Secretariat on October 13-14, participants discussed the preliminary findings of a study commissioned by BizClim as a contribution to the Secretariat's own reflection on SME financing in ACP countries and the role of the EIB management Investment Facility.*

**T**he economic and social importance of the small and medium enterprise (SME) sector is well recognized in academic, policy literature and governments. The contribution of formal SMEs in developing countries is estimated to be up to 45 percent of employment and up to 33 percent of GDP. These numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector. Today, governments worldwide recognize the importance of SMEs and their contribution to economic growth, social cohesion, employment and local development, especially in those economies belonging to developing countries and, within that broad category, especially to those with major employment and income distribution challenges. Asian and Latin America experiences have provided the laboratory to illustrate that a growing economy can be built on a dynamic SME sector and, in addition, that inequality can fall significantly when the weight of the SME sector rises quickly.

Nevertheless, entrepreneurs and small companies find it very difficult to set up and grow their businesses. SMEs face a host of non-financial and financial constraints, especially in low-income countries. According to IFC research, the five non-financial components of the business environment that SMEs most frequently rate to be major obstacles are lack of electricity, heavy regulation, high tax rates, practices of competitors in the informal sector, and corruption. Regarding the financial constraints, about 30-35 percent of SMEs in emerging markets do not have access to formal loans or overdrafts, despite a need for one. Banks do not find it easy to lend to small and medium-sized companies with little collateral and uncertain prospects. Across the ACP countries, entrepreneurs, no matter how smart or driven, often fail for lack of access to capital.

Aware of the importance of private sector and SMEs, the European Investment Bank under the Cotonou Agreement, has been managing for the past seven years the ACP Investment

*The ACP Business Climate Facility (BizClim) provides technical assistance that is essentially about improving regulations, legislation, the institutional set up and financial measures (the rules of the game) relating to the enabling environment of the private sector in ACP countries or regions and to do so by focusing on possible support to ACP governments or regional institutions and private sector organizations.*

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Facility, endowed with a €3,185.5 million risk-bearing revolving fund geared to fostering private sector investment in ACP countries. A recently completed mid-term evaluation of the Facility concluded that its impact on countries' growth and competitiveness has been limited. This is among the reasons why the ACP Secretariat, through BizClim, launched a project aiming at enhancing SME financing in ACP countries and improving the impact of the Investment Facility on SMEs. In this context, a first high level meeting took place on Friday, 15th of July at the ACP House in Brussels that saw the launch of a study on the subject. A Second high-level meeting, which took place on October 13-14, 2011 discussed the findings of the study and drew key recommendations.

### First High-level meeting

On Friday 15 July, the ACP Secretariat held a one-day high-level meeting to discuss ways and means of enhancing SME financing and improving the impact of the Investment Facility on SMEs. The meeting brought together more than 100 leaders of some of the ACP regions biggest financial and multilateral institutions and some of the region's largest banking institutions with the main objective of providing guidance and inputs to a team of experts who had to undertake a study on improving access to finance by SMEs and Small States. This high-level meeting assessed available cooperation options, as well as envisaged new possibilities and discussed practical recommendations. Mainly, the meeting called for a stronger collaboration

between the Development Financial Institutions and the Commercial Banks as well as for a better coordination between key stakeholders in SME development. The regionalization of the Investment Facility was also pointed out as a key issue for improving access to finance by the SMEs. The meeting ended with the establishment of an Advisory Committee in charge of following up on the recommendations made during the meeting, continuing the reflection on SME financing and advising the ACP Secretariat on related issues.

### 2<sup>nd</sup> high level meeting

Following the successful first High-level Meeting, the ACP Secretariat held a second meeting on October 13-14 aiming more specifically at discussing the preliminary findings of the study and focusing on key conclusions and recommendations of significant relevance to enhancing SME financing and improving the outreach of the Investment Facility to SMEs and Small States. Also, there were presentations and discussions about the social entrepreneurship and SME Financing as well as best practice and success stories. Key recommendations have been agreed and the Advisory Committee has been mandated to finalize and operationalize these recommendations and craft a policy paper for submission to the ACP Secretariat by the end of November at the latest. Also, Consultants and the Advisory Committee will continue reflection on the devolvement of the Investment Facility. ■



## Recommendations from the 2<sup>nd</sup> High-level Meeting on SME financing in ACP countries

### Main recommendations

- Support capacity building focused on SME financing
- The EIB should address more forcefully the needs of the SME missing middle.
- The EIB should enhance use of credit risk enhancement mechanisms, possibly with grant money, as well as its capital mobilization ability.
- Increase blending grant money through DFIs money (e.g. European Union and EIB) for SME financing.
- The EIB should operate proactively and achieve a larger reach and wider country coverage.

### Other Recommendations

- Enhance partnering with private sector organizations when providing SME financing
- Engage Governments in partnerships with the private sector and the creation of an enabling business climate

## NEW BIZCLIM REQUESTS

Country/ Region	Beneficiary	Title
Republic of Vanuatu	Embassy of the Republic of Vanuatu	Promoting renewable energy in rural areas of Vanuatu
Pacific	Secretariat of the Pacific Community	Improving energy security in the Pacific
WAEMU	Commission of the WAEMU	E-regulation System
COMESA	COMESA RIA	Enhancing IPAs websites and marketing tools according to GIPB reports
SADC	OECD	Capacity building program to enhance public official's capacity to design and implement PPP projects in infrastructure, both at regional and country level.