

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

**MICRO, SMALL AND MEDIUM-SIZED
ENTERPRISES STRATEGY**

**Report on the invitation to the public
to comment**

Introduction

On 20 May 2005 the Bank made the draft Micro, Small and Medium-sized Enterprises Strategy (MSME) (CS/FO/M/05-9) available on its website and invited comments from individuals and organisations to be provided not later than 4 July 2005. Comments were received from individuals through July 10; their comments and staff responses are contained in this document.

Comments and Responses

“Devote more total EBRD money to MSME financing, to the extent that funds can be absorbed effectively, especially if the MSE sub-segment maintains its low level of delinquencies and the SME sub-segment remains underdeveloped. Allocate a total of 1,774 million euros to the MSME initiatives, up from the 1,615 million euros projected for 2005 – 2007, in line with the principle of withdrawing only from sub-segments in which substantial private-sector expansion is expected, or previous EBRD strategies have failed.”

The amounts that are mentioned in the strategy are based on the indicative pipelines of the respective teams and projections of the same and does not represent a ceiling on the funds to be provided by the Bank. The EBRD considers the MSME sector to be critical to its mandate and will continue to allocate as much as there is market to lend to based on its principles of additionality, transition impact and sound banking.

“Continue to cultivate “specialised microfinance institutions” outside the formal banking system to enhance market coverage in underserved areas, stimulate competition in the banking sector, and help fund “business as usual” during crises. Maintain a degree of constructive ambiguity between a critical mass of micro banks and the existing sector.”

The EBRD will continue to establish greenfield specialised microfinance institutions where the formal financial sector is not able or is constrained in its provision of financial services to the MSME sector. Further, the Bank will be working with existing partner banks and specialised microfinance institutions to broaden their MSME outreach beyond the capital cities to rural and agricultural areas. Finally, the Bank is now working with non-bank microfinance institutions which can provide even smaller loans and are often established in more rural areas.

“Embed new micro banks within the civic realm institutionally by including civic groups in poverty reduction strategy formulations.”

The EBRD maintains strong links with the NGO communities in its countries of operation as well as internationally. It is also an active member of the Consultative Group to Assist the Poor (CGAP), a World Bank sponsored donor co-ordination organisation dedicated to disseminating best practices in providing financial services to small businesses and low income groups on a sustainable basis.

“I would like to recommend to add a new point – support of guarantee schemes...to share the potential risks of commercialof commercial banks and stimulate them to

finance potentially viable projects as well as to improve access to finance from the MSME side.”

Thank you, the Bank will develop and utilise a broad array of financial products and services to support the MSME sector through financial intermediaries. Guarantees are a tool of the EBRD. We have included specific mention of guarantees in the strategy.

“My ..note concerns the unstable entrepreneurial environment. Governments have frequently changed legislation...impacting on stability of the markets and sometime “kills” a good project...EBRD could be used more frequently on lending schemes”

The EBRD conducts policy dialogue with its countries of operation both on a stand-alone basis as well as through its projects in order to improve the business and regulatory environments in which the MSMEs operate. Targeted credit lines, and specialised financial institutions are two of the most effective instruments/programmes of the EBRD to support MSMEs.

“...lack of liquidity (combined with) short-term records of MSMEs which (need) working capital...They should be provided (with both investment credit and shorter term working capital, and with grace periods for the investment credit.)”

Indeed, the financing provided by the EBRD through commercial banks as well as specialised financial institutions for smaller borrowers often start with short term working capital loans paid within a year, gradually moving up to investment loans with longer tenors and grace periods. The financing terms are based on the needs and use of proceeds of the client.

“The belief that small and medium sized enterprises need to be more fully used in the public procurement process has become pervasive...At the same time public policy suggest that the use for SMEs to deliver goods and services in the public sector can bring innovation and “best value.”. But there is also an acute awareness that accessing such opportunities requires particular skills and experience in itself. Given the significance of public procurement, then, the question of how SMEs can develop and maximise opportunities is of considerable importance for local, regional and national economies.”

The EBRDs TAM BAS program targets support to local enterprises so that they can compete more effectively as well as better access finance for their investment requirements.