Good morning, members of the BiD Network, investors, ladies and gentleman. Thank you, Mr. Albrechts, Mr Sanders and the BiD Network for inviting me to speak to you today. I also look forward to visit the marketplace and learning about the business ideas that you have brought from Armenia and Argentina, Uruguay and Uganda.

Last September, UN Secretary-General Ban Ki-moon designated me as his Special Advocate for Inclusive Finance for Development.

When I talk about my work as UN Special Advocate, I always find it useful to start by defining Financial Inclusion. Financial Inclusion means universal access, at a reasonable cost, to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions. Financial Inclusion is as much about enterprise finance as about individual finance.

You are here today because it has been difficult to find finance for your business in the country where you operate. Or it has been difficult to find the right enterprise to invest your money in. The BiD Network makes a great contribution by bringing you together.

This marketplace therefore highlights the huge demand for financial services and the huge financing gap that exists locally. According to the Enterprise Survey, after clients and markets, SME’s biggest need is finance. World-wide, only a little more than 50% of firms with 100 or more employees have a bank loan or credit line. And of course, this gap is greater in developing countries. Fewer than 20% of small firms in low-income countries have credit from a bank.

We also know that SMEs need more than just initial loans to flourish. They need longer-term capital. They need current accounts, savings accounts, and lines of credit, all to help manage cash flow. They also need payment services, so an owner doesn’t have to spend half a day traveling across town just to pay a bill. And maybe, they need some kind of insurance for goods and employees, or pension plans.

So, more kinds of financial services are needed, and more quantity of all of them. And most importantly, locally available finance is essential to meeting this enormous demand.

The financing gap also comes from supply challenges. Banks and other investors often have a hard time assessing loan applications from small enterprises. An enterprise may have little track record, credit history or immobile collateral. Risks are therefore perceived to be high. Transactions costs are also high. All of this is obviously worsened by the fact that many enterprises begin and thrive as informal operations.

To you, a group of creative entrepreneurs, it may also sound surprising that good ideas are in short supply. And when there is a good idea, business plans are often weak. This is why I think that coaching, technical assistance and other non-financial support are so important to create sustainable SMEs.

One of BiD’s success stories is Joy Lwanga, a farmer in Uganda. Joy had struggled to introduce organic eggs into the local market. BiD worked with her to improve her business plan and present it to international investors. Together, these services enabled Joy’s business to expand and become profitable.

The BiD Network and this marketplace are excellent initiatives. The issue is how do we make these kinds of activities sustainable, affordable and available everywhere they are needed?

First, these financial services need to be embedded in local institutions. To do this, we need to share knowledge, build capacity and expand local services. Local presence can also help in assessing applications and providing
non-financial support. I encourage BiD and all the investors here to think about expanding your partnerships with local organizations.

Second, we need to make sure that there is access to finance across the whole value chain. So often, people talk about microenterprise in one silo, and SMEs in another. In reality, the borders between micro and small enterprises are very blurry. Not every entrepreneur starts by being a mid-sized company, but often as a micro-business. And, finding finance at these initial stages can be very hard.

Moreover, the success of an SME is linked to larger and smaller businesses around it. Joy Lwanga found clients for higher-priced organic eggs in a national supermarket. She relies on local vendors for egg trays and bar codes, and now, also local villagers to supply her with more and more eggs.

All of these suppliers and clients need financial services to thrive. What is then available for each of them? Some of the micro-suppliers and small enterprises will be served by MFIs through up-scaling. Others will be served by commercial banks that are reaching down the market.

The opportunity for investors and financial institutions is to help entrepreneurs to grow. By creating silos, with microfinance here, and enterprise finance there, we will not effectively focus on the needs of the enterprises. We need to speak a common language that connects finance throughout the entire value chain.

Third, we need sustainability. Financial tools must be affordable for the enterprise and for the provider. This means covering the costs and providing other valued services.

It also means addressing risk in product design. For example, in Rwanda I met an investor who considers finance applications based on the viability of the business, not collateral. His firm then provides advice to help the enterprise succeed. Other organizations provide guarantee funds. These are all solutions aimed at quantifying risks or hedging them in order to lower costs.

This leads me to the fourth element, the right policies and financial infrastructure to enable markets to work better. Enabling legal regimes governing both finance and commerce can foster access to finance and growth. More efficient payment systems and effective credit bureaus will also help drive down costs.

In this respect, better data is needed. Good data will improve our understanding of which firms have access to what services, and where barriers lie. Put simply, good data will help us to design more effective policy responses. In this respect, I am very pleased to share with you that last Tuesday, I hosted in The Hague the first SME Finance Data Working Group of the G20. We believe this effort will help us move forward by giving us better insight.

Before I conclude, I would like to remind you that the goal of financial inclusion is not only to give people and companies the services they need, but also to help communities lift themselves out of poverty and thrive. And for this, the impact of SMEs matters.

SMEs are engines of growth and development. In most economies, nearly every enterprise in the private sector is an SME. SMEs contribute nearly 49% to GDP in high-income countries. In low-income countries, they contribute only 29%, but this does not include the often-thriving informal sector.

And most people are employed by SMEs. Here in Europe, about two-thirds of all private employment comes from SMEs. And these are often small firms, with about 6 employees. The trends in developing countries are similar.

In closing, I would like to remind you of three things that I believe are crucial for SME development in emerging economies.

First, innovative, high-quality business ideas need affordable, accessible and diverse financial products, and non-financial services, like technical advice.
Second, we need to provide access to finance across the value chain, recognizing that individual and enterprise finance are a continuum.

Third, we need to embed these kinds of financial and support services in local institutions, and build sustainable, wide-spread local financial infrastructure. Sharing of knowledge, local partnerships, sustainable approaches and the right regulatory environments will facilitate all of this.

I hope you take these issues in the future to make SME flourish. I wish you great success in your endeavors. Thank you.