

CSO Comments on Micro Small and Medium-Sized Enterprises (BM8, Oct 2014)

Documents:

GCF/B.08/14 "Working with Local Private Entities, Including Small and Medium-Sized Enterprises"

GCF/B.08/40 "Recommendations from the PSAG: Engaging Local Private Sector Actors, Including SMEs"

NOTE: in their recommendations on local SME engagement, the PSAG is actually in line with a lot that we would suggest, including:

- *Relevance of establishing a dedicated SME investment strategy for targeting local small-scale private actors, given that local SME are the core local private sector in developing countries, accounting for over 60% of GDP and over 70% of employment*
- *That such an SME investment strategy should be implemented through accredited local and national intermediaries*
- *Allocation of a minimum of resources (financial floor) for that purpose*
- *Focusing on grants and highly concessional loans as the most appropriate financial instruments for that purpose*

Our talking points:

- We are encouraged by some first proposals by the Secretariat, supported by PSAG recommendations, on creating a programme (programmatic approach?) to start addressing the financing needs of MSMEs in developing countries as a way of engaging key actors for a transformational shift in private sector engagement for low-carbon and climate-resilient development in recipient countries, although we would like to see a clear definition of MSMEs.
- Given the importance of the MSME sector, both formal and informal, in developing countries, the proposed MSME program cannot be a pilot program "fig leaf" but needs to be of substantial size and focus exclusively on grants and highly concessional loans. Terms and conditions need to be included to ensure that intermediaries do not employ the high interest rates that have plagued many microfinance approaches in the past.
- Domestic MSMEs are best mobilised through national or sub-national intermediaries and funding entities as envisaged in the modalities to enhance direct access. The proposed MSME programme needs to focus on both the formal and the informal sector for maximizing outreach and effectiveness.
- A disproportionately high share of MSMEs in developing countries are operated by women entrepreneurs. Therefore, a GCF MSME programme needs to pay particular attention to the gender dimension of lack of access to appropriate financial service provision (such as cultural bias of loan officers, collateral requirement etc.) It is estimated that more than 70 percent of women-owned MSMEs in developing countries are unserved or underserved by financial institutions.
- Correspondingly, the proposed Private Sector Project Development/Capacity-Building Programme needs to focus on identifying gender biases in the provision of financial services to local actors, especially MSMEs and address those thru gender-sensitive advisory services and

targeted training, for example of loan officers. Sub-national intermediaries with an understanding of local contexts must be included as providers in this program (not just national and regional ones).

- The MSME programme must prioritize support for local (village level) MSMEs both in the formal and informal sector over nationally operating actors. The contribution of MSMEs to their local communities and their enhancements to local livelihoods, income diversification and local employment, not their contribution to the supply chains of corporations or governments, must be the program's focus.
- It should address the issues of accountability of the intermediary to the local community; for that reason local financial service providers like credit union or cooperatives, and not just nationally operating private financial actors such as investment and commercial banks, should be prioritized.
- Lastly, we want to note that while the MSME program is planning to help with highly concessional finance to address some of the concrete finance access needs (via paying down transaction costs), it does not address necessary changes in the policy and regulatory environment that are also needed to support and strengthen MSMEs in many developing countries.