UN ECONOMIC COMMISSION FOR EUROPE
SECOND UNECE FORUM OF WOMEN ENTREPRENEURS

KEYNOTE ADDRESS BY
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Thank you Brigita.

I know many in this room – and at least two of us on this panel – are acquainted with the question of accessing finance in the former Soviet bloc, which we refer to as 'countries in transition'. But as some of you are from the Americas, Asia and Africa, let me recap.

It's said that women make the best credit risks. Yet women can face major hurdles in accessing credit.

That's often true in the most – and least – developed countries. But in between we have the ex-Soviet bloc, which is the EBRD's region of concern.

Historically, men in our region tended to focus on production, and women have been the accountants and bankers. So, while in some countries a banker might expect a husband to co-sign for his wife's loan, I can tell you of one instance in Russia in which a banker demanded that the *wife* co-sign for her *husband*. Such is the acknowledgement in our region of women's financial dependability and business prowess.

Which is not to say that getting credit in our region is easy. It can be difficult regardless of your gender. Bank lending in relation to Gross Domestic Product in the EU accession countries is just over one-quarter of the level in the Euro zone.

These countries in transition from command economies to market economies are still unused to capitalist ways. They still have to understand and build the legal and financial infrastructure necessary for thriving economies.

And this leads me to a central point. Capitalism alone is not enough to transform the region. Access to finance, while of crucial importance, is insufficient to support the start-up and growth of new enterprises.

Money must be accompanied by parallel efforts to improve the investment climate and remove impediments to business start-up and growth. And finance must be creative to get around some of the hurdles in doing business in these countries.

How does the European Bank for Reconstruction and Development fit into all this?

EBRD BACKGROUND

The EBRD was created in 1991 by the major economic powers of the world, to invest in the ex-Soviet Union and its satellites.

We're a taxpayer-based institution. We're no charity. We are expected to make a profit each year, and we do.

But our goals – and services -- go beyond the balance sheet.

The bottom line is never the bottom line at the EBRD. Our unusual mandate of delivering more than just financial profits from our investments means potential deals are examined through the light of a number of different prisms.

Besides being based on sound banking principles – to ensure a profit – our deals must:

- promote transition from a planned economy to a market economy,
- be environmentally acceptable,
- and enhance private sources of finance, rather than compete with them.

Since 1991 the EBRD has invested roughly 22 billion euro in the people of the region. As important as the cash is the Bank's provision of the know-how, training, political dialogue and, where necessary, pressure to encourage the transition to market economies. This means:

- building up institutions and local capacity
- transforming the banking and legal systems
- freeing the business sector from unreasonable restraint
- clarifying jurisdiction
- and breaking down inefficiency, monopolies and corruption.

How is our work relevant to the people in this room?

WOMEN, ACCESS TO FINANCE, & THE EBRD

The EBRD has over 7000 clients a month who are women. And we don't even have a programme targeted at women.

What we have is a major programme in micro-, small- and medium-enterprise lending. SMEs are the bedrock of entrepreneurship and the hope of struggling nations. It is in the dynamic SME sector that the EBRD is increasingly placing its emphasis.

There are a number of programmes around the world that do target women borrowers but these tend to be small. And given their limited resources, they have to ration their credit. We do not. Our subscribed capital is 20 billion euro.

Another reason we do not have a programme specifically aimed at women is that, despite high loan repayment rates by women, targeting them might not be the wisest financial decision for the local banks through which we work. There is research to indicate that in some credit programmes for women, they were merely acting as intermediaries between male family members and financiers, thus increasing dependency on men and/or conflicts with them to fulfil repayment targets.

Basically, we want the local banks that deliver our SME funds to the market to make the best investment decisions possible, regardless of client gender.

That is not to say we are passive in the face of prejudice. In two instances we refused to proceed with certain banks until they adopted positive lending attitudes and practices toward not only women clients but also toward women loan officers.

By January 2000, in our 27 countries of operation, our SME programme had lent 477 million dollars. Two years later that amount had quadrupled to 2.2 billion. The average loan amount has decreased. This demonstrates the programme’s strong micro-finance focus and greater outreach to more remote, poorer areas. Portfolio quality is excellent, with arrears standing at just one per cent.

In Russia alone, since 1994 we’ve lent over one billion dollars through our small and micro-lending programme. There we’ve worked with 120,000 clients in 116 towns and cities. Forty-one per cent of those clients are women. Of course these businesses employ many more people so the impact is substantial.

The transition from command to market economies has meant job losses and cuts in state supports in the ex-Soviet bloc. So encouraging entrepreneurship is more important than ever. Women in the region may be ambitious and entrepreneurial by nature; they are increasingly so for survival.

We funnel our money to SMEs through banks in our countries of operation. Through training funded by donors we help open bankers' eyes to the potential in the market trader, the neighbourhood baker, the medium-sized clothing manufacturer. There are the food businesses. The livestock businesses. The shoe and toy businesses.

A year ago the Bank was financing just over 9000 micro- and small enterprises each month. Just 12 months later those numbers have grown to 15,000 loans.

SUSTAINABILITY OF SME FINANCE

But is our work in this sector sustainable?

To answer that let me tell you about the EU/EBRD Small- and Micro-Finance Facility. We work with 24 banks in the 10 countries awaiting accession to the EU. To date 241 million euro have been disbursed in about 10,000 sub-loans. The average loan size is approximately 25,000 euro.

As you know, private sector banks' involvement with SMEs is generally minimal. SMEs are seen as riskier than larger clients and it's expensive to set up and administer these relatively small loans.

The EU/EBRD Facility offers banks the opportunity to develop their lending procedures for SMEs, with some choosing to target micro-enterprises. The Facility pays an incentive to convince banks to engage in SME lending. We call this incentive a performance fee. In practice it is a discount on the interest rate charged to banks for the amounts used to make new and good quality loans. The fee covers the start-up costs of building the bank's SME lending businesses, and phases out rapidly three years from signing the EBRD loan.

Additional donor funding is provided for banks in the programme, for 18 to 24 months, to:

- assist in streamlining credit procedures and documentation for SMEs

- train loan officers and credit analysts to better appraise and structure SME loans
- improve sales skills, marketing and monitoring practices
- introduce performance-based compensation and other motivational schemes
- and to work with bank management to develop long-term strategies for serving the small business sector.

Knowing the EU backing is of limited duration, bank management and consultants work from the start to establish SME finance on a sustainable basis. This requires early attention to training of trainers and management capacity to carry on expansion of SME finance without the support of externally-funded consultants. Training is tailored to the needs of the particular bank and its personnel, with cash flow analysis a priority for many. Where loan officers have strong analytical skills, training has focused on sales and marketing to SMEs. The improvement of customer service skills is very important to SMEs, as they tend to be less price sensitive than they are concerned with quality of banking services.

The EBRD places strong emphasis on buy-in by local banks, as their management must drive the programme's expansion through the bank branch network.

Now: what about results in terms of sustainability?

In 2002, donor funding for all this training and support came to an end at five of those 24 banks in the accession countries. *And there has been no material difference in the volume and quality of SME loans since then.*
As mentioned, arrears in this programme have been maintained at less than one per cent.

TRADE FACILITATION, LEASING, ETC.

We don't just lend money to SMEs. Nearly one half of the Bank's guarantees under our Trade Facilitation

Programme have been for small transactions which benefit SMEs. We also talk to governments about impediments to cross-border trade which impact on small-scale traders and on consumers.

We also promote leasing, which can offer SMEs numerous benefits. In more advanced countries, entrepreneurs can deduct from taxes the finance costs related to the lease, and the lessor may be able to accelerate depreciation of the equipment. And SMEs lacking the credit history, assets and strong cash flow to qualify for loans to buy heavy equipment can still access it via leasing.

We also encourage our bigger clients to build up their local suppliers and distributor networks. For example, in the Ukraine our investment in the Dnipropetrovsk Oil Extraction Plan led to significant increases in the local production of sunflower seeds. The largest impact on the seed producers resulted from the plant's cash payments to the farmers, which substituted previous barter and tolling transactions. These farmer SMEs were motivated by cash to grow sunflower seeds on a larger scale.

CLOSING

In closing let me say that as an experienced international banker, I still enjoy the rush of signing the big, multi-million-dollar deals. But then I see the impact of a 1,500 euro loan to someone like Rahima Marmitova. She has a cotton printing business behind her home in Uzbekistan. I am inspired by her gritty determination and creativity in making a future for her family. I am intrigued as to how she knew that fabric dyeing was a way to achieve her goals. I'm delighted to see her staff has grown from 10 to 15, thanks to our SME programme. And I am gratified when I see that her cousins, aunts and uncles have followed her example and have started similar businesses on their own.

The EBRD has a wealth of experience in making finance accessible in difficult circumstances. If you're working in our region, we'd like to work with you. If you're outside the region, please let us share the lessons we've all learned.

And thank you for inviting me to speak with you this morning.