

G-20 Financial Inclusion Initiative: SME Finance Challenge

At the Pittsburgh Summit, the G-20 created the Financial Inclusion Experts Group (FIEG) to expand access to financial services, including credit, to the poor. In Pittsburgh, Leaders also called for the launch of a global small and medium-sized enterprises (SME) Finance Challenge, a unique financial inclusion effort aimed at helping small- and medium-sized entrepreneurs grow their businesses. The aim of the Challenge is to find the best models worldwide for public-private partnerships that catalyze finance for SMEs and to give the creators of those models a chance to solicit financing.

SMEs play a major role in economic development and are often the single largest source of job creation, particularly in emerging economies. Lack of access to finance, however, is a major obstacle to these firms' growth. Only an estimated 20 percent of small firms in low-income countries have access to credit. SMEs are often too small to attract commercial bank or investor interest, but too large to benefit from microfinance products. To date, few scalable solutions to support this "missing middle" tier of businesses have been found.

G-20 Partnership with Rockefeller and Ashoka/Changemakers: The Challenge is an unusual cooperative effort between G-20 countries and a team from the Rockefeller Foundation and Ashoka/Changemakers, both nonprofit organizations with experience in running competitions. The Challenge has strong and broad support across G-20 countries and from private stakeholders in SME finance worldwide.

Who can enter? Proposals are welcome from private financial institutions, private investors and companies, socially responsible investors, foundations, and civil society organizations.

What kinds of public interventions can be proposed? Proposals can take a variety of forms, including policy or regulatory changes, strengthening market infrastructure, capacity-building assistance for SMEs or those financing SMEs, or public-private risk-sharing initiatives.

Assessment criteria: The winners of the Challenge will be those that best meet the following criteria: innovation, leverage, social and economic impact, sustainability, and soundness.

Selection of winners: The best 12-15 proposals will be selected as winners, including at least one from each of the world's six regions (Africa, East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, and South Asia). Proposals will be judged by a panel of five independent experts and three G-20 representatives.

What happens to winning proposals? Challenge winners will be invited to the G-20 Summit in Seoul in November 2010 to showcase their ideas and gain access to a pool of public finance mobilized by the G-20. In Toronto, G-20 Leaders committed to mobilize the funding needed to implement the winning proposals, including from the multilateral development banks and interested bilateral donors. The Challenge has already received the strong support of IFC and the World Bank, the Asian Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank Group to participate in implementing scalable and sustainable SME financing proposals, including those from the Challenge, in partnership with the private sector. The form of funding available will

depend upon the requirements of winning proposals and may include grants for technical assistance or capacity-building for financial institutions, risk sharing or first-loss capital, mezzanine capital, or investment capital.

The web site for the Challenge is: www.changemakers.com/SME-Finance