



Enhancement of the Business Environment in the Southern Mediterranean (EBSEM)



A project funded by the European Union



“Improving Access to Finance for MSMEs in Egypt” Cairo, 26 September 2016

Session 2: Presenting the findings of the regional mapping study and of the focus groups



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2. EBESM A2F Intervention logic



Unlocking A2F for MSME



Raising awareness and facilitating MSME access to financing



Selecting small-scale action plan and preparing implementation



Fine tuning actionable recommendations and defining work plans



Identifying A2F Instruments - Policy recommendations



3. Mapping: Database



Population

- Compilation of qualitative and quantitative information for 8 countries and consolidation
- 98 public or publicly-financed programmes identified
- Publicly available data on MSME development stage, assets financed, size of financings, tenures and costs

Quality control

- QC has been undertaken at three levels: the A2F counsellors, the SBA Coordinators, the EBSM Team Leader
- Focus groups involved both demand and supply side
- Relevant national agencies have been involved



4. Mapping: Scope and limitations



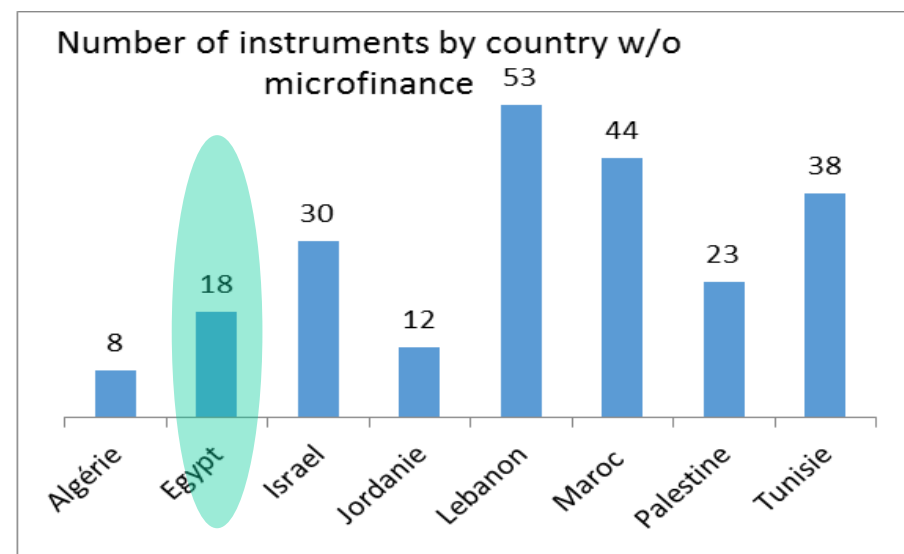
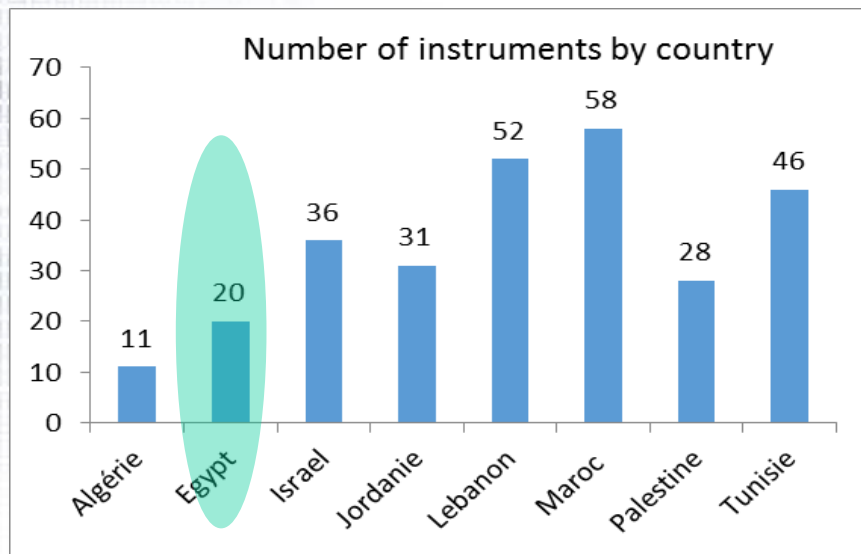
- The mapping concerns only **public or publicly-funded** programmes
- The absence of public programme is not always indicating a gap, as the private sector may address the demand (ex. High tech VCs)
- The mapping tries to be as exhaustive *as possible*, but some small sized initiatives may have passed through the cracks
- Quality and quantity of data publicly available should be improved
- The amounts committed or engaged by instruments are hardly available
- Some information undisclosed: confidentiality issues or varying from one client to another (e.g. interest rates)
- The focus groups provide **qualitative views**



5. Results: instruments



- 98 public programmes identified
- 291 public-sponsored instruments* (232 without microfinance)
- Availability of instruments is contrasted by countries
- Morocco & Lebanon having the densest portfolio of instruments

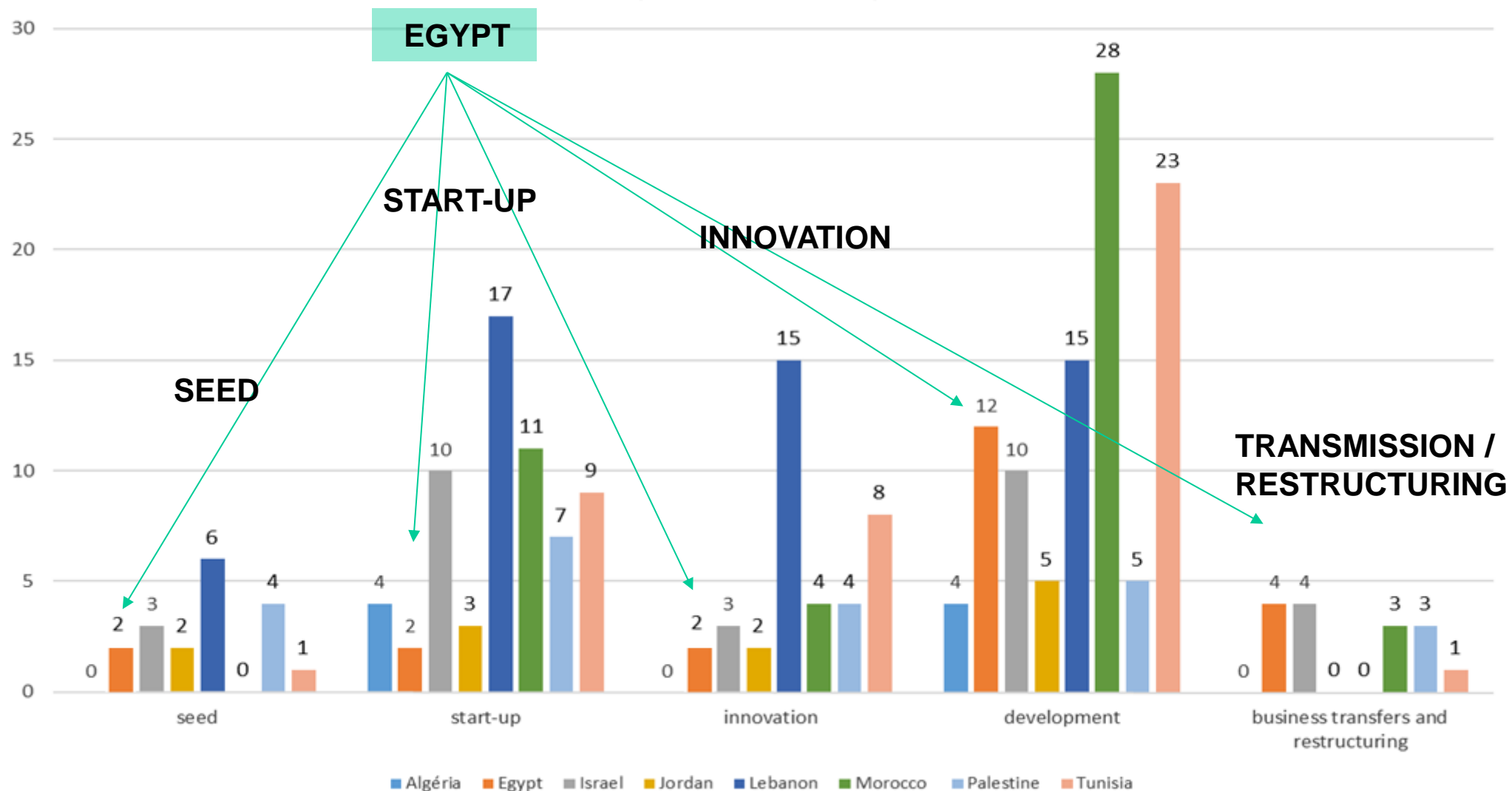


* Instruments being defined as a window for a specific stage of enterprise development, some windows have several instruments (e.g. a Guarantee Fund managing several instruments).

5.1 Distribution by MSME development stages – Without MF (1/2)



Number of financial instruments at each stage of enterprises development (without microfinance)





5.2 Distribution by MSME development stages (2/2)



Findings

- The **distribution of instruments** by enterprise development stage is similar by country, except in Algeria, which seems to slightly favor the transmission instead of creation
- Concentration of financing instruments on the **business development phase**
- Secondary peak on the **creation phase**
- Weaknesses in terms of **incubation, financial restructuring and transmission**
- Egypt **underperforms** in terms of diversity of instruments in all categories
- Advocates for the **deployment of instruments** targeting the seed, and start-up stages as well as innovation



5.4 Weaknesses and threats (Loans & Guarantees)

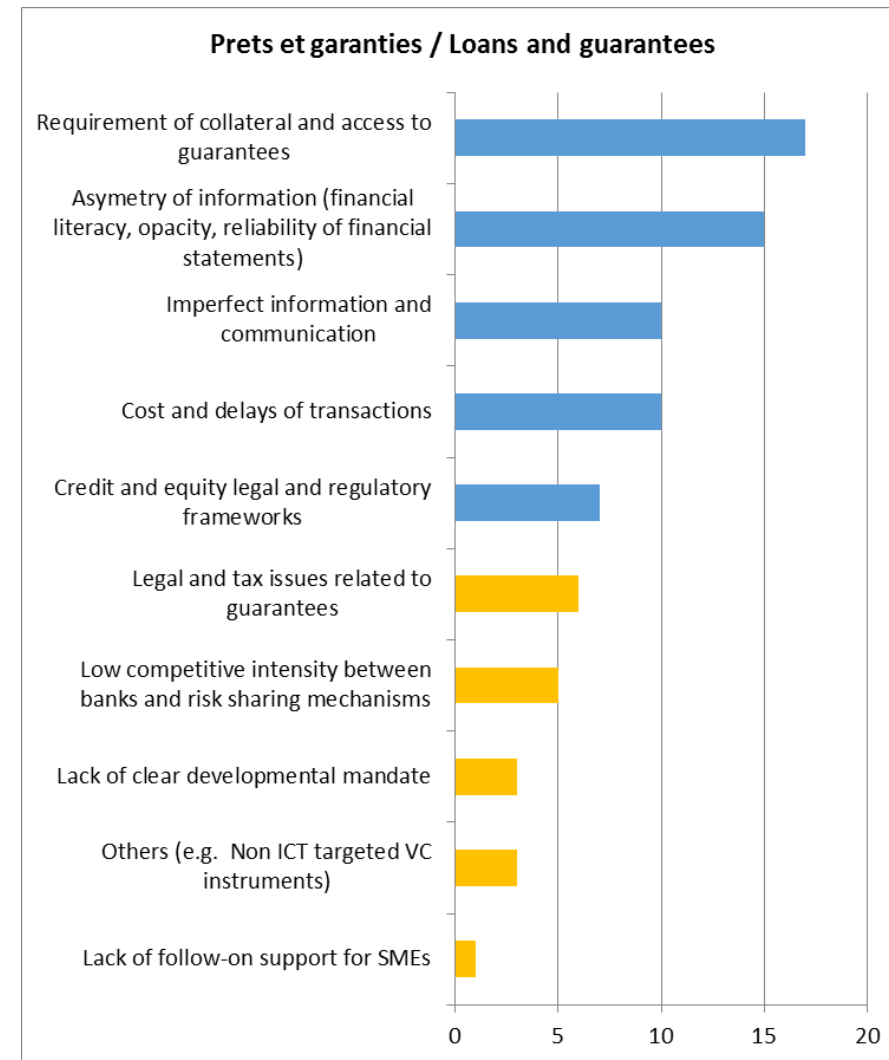


- **Key issues**

- Collateral requirements
- Asymmetric information
- Costs and delays of transactions
- Lack of communication on existing instruments
- Inappropriate credit and VC legal and regulatory frameworks

- **Secondary issues**

- Legal and tax issues related to guarantees
- Low competitive intensity between FIs
- Lack of clear development mandate of FIs





5.5 Weaknesses and threats (Risk capital)

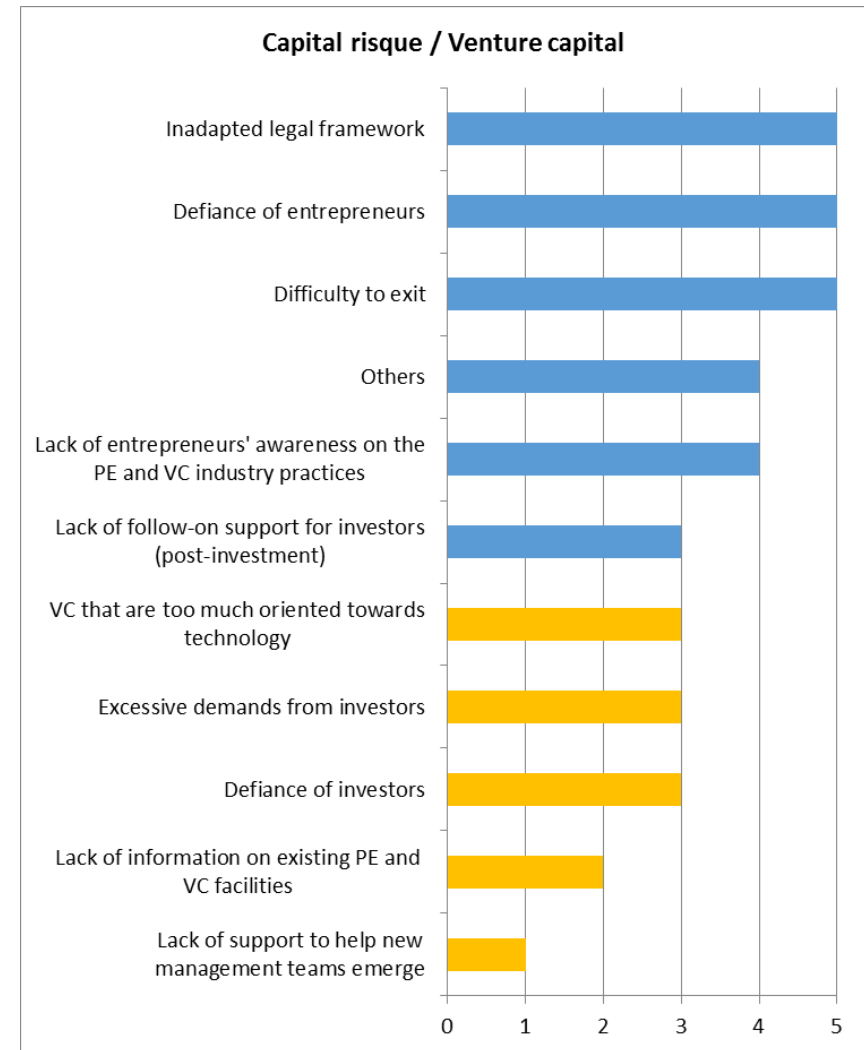


- **Key issues**

- Lack of exit opportunities
- Mistrust of entrepreneurs
- Inappropriate legal framework
- Lack of awareness on PE and VC industry practices

- **Secondary issues**

- Mistrust of investors
- Excessive demands from investors
- VC are too much oriented towards tech.
- Lack of follow-on support for investors
- Lack of information on existing facilities
- Lack of new management team support





5.6 Weaknesses and threats (Microfinance)

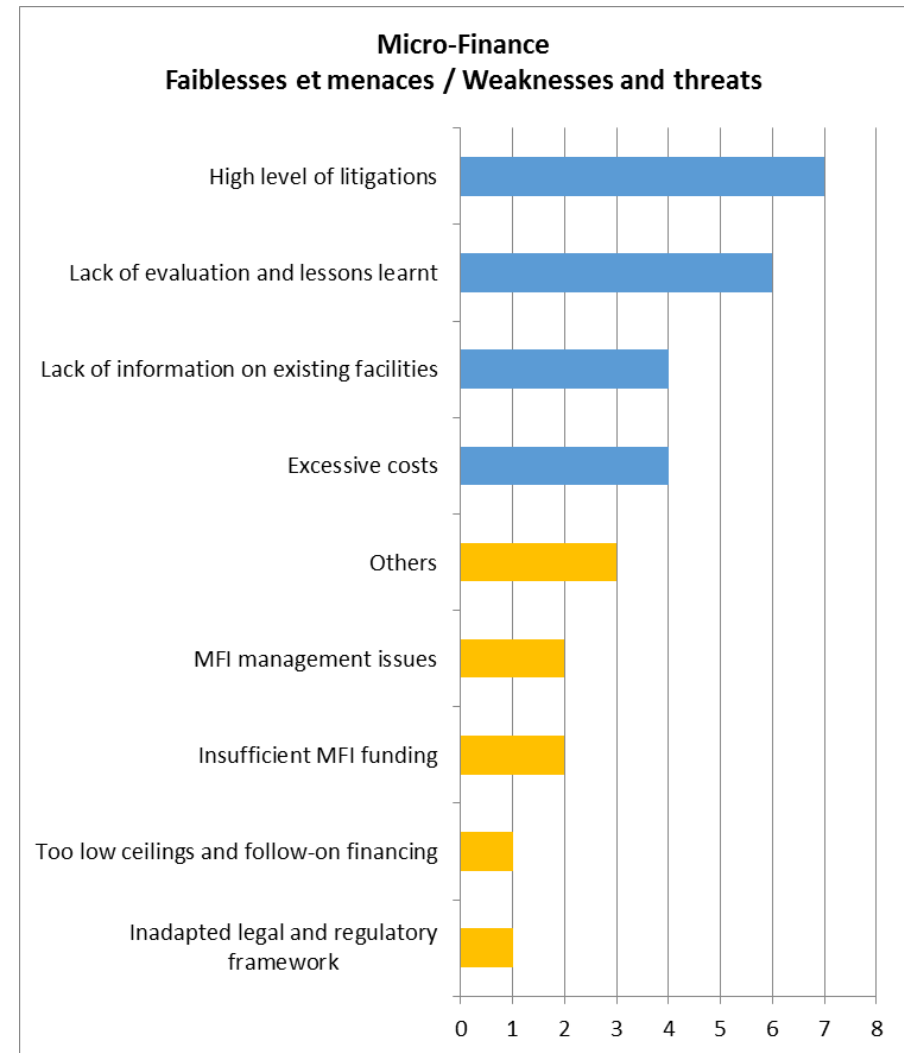


- **Key issues**

- Inappropriate legal and regulatory framework (notably deposit taking)
- Too low ceilings and lack of follow-on financing
- Insufficient low costs MFI funding
- Lack of support to MFI management

- **Secondary issues**

- Excessive costs
- Lack of information on existing facilities
- Lack of evaluation and lessons learnt
- High level of litigations





6. Result of the mapping of regulatory issues



- Cumbersome regulations for start-up is across the board
- Lack of unified operational definition of SMEs (focus group in 03/2016)
- Insufficient capacities of the judicial (not for Egypt?)
- And 8 other issues: can we set priorities?

Obstacles reglementaires	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Cumbersome regulations for start-ups		1		1		1	1	1	5
Standard and operational definition of MSMEs	1	1		1					3
Insufficient technical capacities of the judicial					1			1	2
Lack of global SME strategy	1								1
Lack of incentives for SME equity investors	1								1
Lack of adaptative A2F strategy for SMEs	1								1
Risk sharing Mech. regulations not sophisticated	1								1
No One-Stop-Shop				1					1
Lack of regulatory reform process / Dialogue					1				1
Insufficient protection of creditors rights						1			1
Lack of competition between banks								1	1



7. Result of the mapping of demand side



- Financial literacy, transparency, governance
- High interest rates, long bank processes and lack of collateral
- Weak contractual base

Demand	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Lack of financial literacy / bkg requirements underst.	1	1				1	1	1	5
Low transparency of SMEs, weak governance	1				1	1		1	4
Lack of managerial and technical skills, feasibility				1		1	1	1	4
High interest rates		1		1		1		1	4
Lack of credit history				1			1	1	3
Lack of real collateral (land, assets)		1		1				1	3
Insufficient equity base						1		1	2
Risk aversion	1						1		2
Lack of awareness of available instruments		1			1				2
Lack of links between academic R&D and SMEs					1		1		2
High degree of informality							1		1
A lack of partenarial culture of SMEs	1								1
Long process to get a loan decision		1							1
Weak contracts that can hardly be financed		1							1
Lack of efficient infrastructure in the regions				1					1



8. Result of the mapping of supply side



- Insufficient risk-sharing mechanism notably for start-ups (not mentioned for Egypt)
- Attractiveness, legal constraints, no moveable assets registry
- And 12 other obstacles...

Supply	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Insufficient risk-sharing mechanism notably for start-ups	1	1		1		1	1	1	5
Perception that the SME segment is not attractive		1		1		1	1		4
Lack of data concerning SMEs		1		1			1	1	4
Insufficient involvement / decentralization of BDS					1	1	1	1	4
Lack of an MSME specialized bank	1							1	2
No cash-flow based lending				1			1		2
No credit scoring system / moveable AR				1			1		2
Lack of specialized SME dpts / trained officers							1	1	2
Lack of coordination between fin. Providers					1				1
Legal constraints associated with SME lending		1							1
Lack of incentives to channel funds towards SMEs	1								1
Lack of national association for innovative finance	1								1
Difficulties to deal with semi-structured firms		1							1
VCFs not serving traditional sectors			1						1
Imperfections of the micro-finance law				1					1
Insufficient liquidities / capital markets								1	1



9. Good Practices Mapping



What does the mapping bring out?

- 27 good practices identified (perception)
- Few practices shared by several countries
- Good practices can be mapped out at 5 levels
 - Policies, regulatory reforms, incentives 6 GPs
 - Knowledge, dialogue, financial infrastructure 6 GPs
 - Financial and risk mitigating instruments 6 GPs
 - Meso-level support 4 GPs
 - Micro-level support 4GPs

10. Result of the mapping of good practices



Country synthesis (raw)

Bonnes pratiques par theme / Good practices by then	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Policies, regulatory reform, incentives									
Exemption of stat. res. or reg. incentives	1	1			1		1	1	5
Interest subsidy for SMEs				1	1				2
Unified definition of SMEs							1		1
Development of a financial inclusion strategy							1		1
Creation of the self-entrepreneur regime						1			1
Creation of growth poles / clusters								1	1
Knowledge / dialogue / infrastructure									
Credit bureau / centrale des risques	1					1			2
Development of a database of available financings							1		1
Developed knowledge on SMEs by sectors						1			1
Dialogue platform for SME issues							1		1
Banking mediation centre						1			1
SME stock exchange		1							1
Financial and risk mitigating instruments									
Government loan guarantee			1	1				1	3
VC ecosystem or VC incentives			1		1				2
Existence of an SME Bank								1	1
Development of leasing cies backed by banks	1								1
Grants for seed finance					1				1
Encouragement of Islamic finance						1			1
Meso-level support									
Creation de reseaux sectoriels / ou en region	1					1	1		2
Accompagnement jeunes promoteurs	1								1
Liaisons avec les gdes entreprises	1								1
Regional focal point for loans and gtees	1								1
Micro-level support									
Linkages between public admin. / MSME suppliers	1								1
Training of bank officers by sector reps	1								1
Encouraging SME to partake in R&D			1						1



11. Egypt Reforms



Background: FSRP

GOE has embarked on a **drastic reform programme** (FSRP) since 2004.

12 years after the initiation of the reform programme, all objectives were met:

- Tighter regulatory and supervisory rules for banks
- Privatization of large state owned banks
- And the entry of foreign banks

New initiatives starting with the long awaited definition of MSMEs



12. Definition of MSMEs



Companies and Enterprises	Existing Firms		New Firms (under construction)	
	Business Size (sales and yearly revenues)	Size of Employment	Paid Capital <small>(Paid Capital is used in the case of new enterprises and firms instead of using the business size.. This applies for 1 year from the date of performing this activity in order to have all business data available. This classification is considered temporary. After that the original definition will be applied)</small>	Size of Employment <small>(the size of employment is used as a guidance and not to categorize the size of the company or enterprise)</small>
Micro Enterprises	< EGP 1 million	< 10 Individuals	< EGP 50,000	< 10 Individuals
Very Small Enterprises	From EGP 1 million – EGP 10 million	< 200 Individuals	<ul style="list-style-type: none"> •Industrial Enterprises: From EGP 50,000 – EGP 5 million •Non-Industrial Enterprises: EGP 3 million 	< 200 Individuals
Small Enterprises	From EGP 10 million – EGP 20 million		<ul style="list-style-type: none"> •Industrial Enterprises: From EGP 5 million – EGP 10 million •Non-Industrial Enterprises: EGP 3 million – EGP 5 million 	
Medium Enterprises	From EGP 20 million – EGP 100 million		Undefined	



13. Latest Reforms



- **EGP 200 billion were allocated** by the CBE to provide loans to 350.000 small and medium enterprises with a maximum price to borrower at an annual decreasing rate of 5% interest rate to support and facilitate A2F for MSMEs
- Banks requested to have at least 20% of their lending portfolio allocated to SMEs with turnover of between EGP1M to EGP20M
- Requirement to report the credit of each benefiting client / customer
- Banks were given a time-frame to adjust their status according to the new regulations and they will develop and upgrade their departments
- In February 2016, launching of the **EGP 5 billion @7% for medium-sized enterprises in the industrial and agricultural sector**



Thank you for your attention

Christophe MALHERBE
cmalherbe@factfund.com

Iman KAMEL
ikamel0673@gmail.com

