

Improving Access to Finance

CBE Vision & Strategy for Reforms

How to maximize the recent breakthrough initiatives

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البنك المركزي المصري

SMEs Vision

Expanding the SME sector is a national priority and crucial pillar for economic stability.

As the primary engine of economic growth directly contributing to poverty alleviation in Egypt, the CBE vision is;

“To develop a synchronized national blueprint that will enable achievement of the socio-economic objectives for Job Creation and Financial Inclusion”

CBE Objective

Support entrepreneurs' effective access to all types and sources of finance to enable;

- ✓ Import Substitution
- ✓ Export Amplification
- ✓ Job Creation
- ✓ Technical Innovation and Automation

CBE Strategy

To leverage global best practices and collaborate with the relevant Ministries, International organizations and subject matter experts to effectively improve the SMEs operating environment and create targeted financeable opportunities that would ;

- **Enhance outreach**; particularly to rural areas & underserved segments
- **Increase usage of technology**; for products & services delivery and process improvement
- **Grow Market-Share**: capture significant universe of informal sector
- **Improve performance**; up-skill banking sector employees & SME entrepreneurs
- **Reduce risk**; enable credit guarantees, endorse consumer protection & corporate governance

CBE Actions

As part of the banking sector reform in Egypt the CBE's Board of Directors issued two *decrees in:*

- **December 2008**, exempting direct finance to certain SMEs from the legal reserves requirements and;
- **December 2015**, introducing a unified definition for SMEs according to their annual revenue to **further enhance access to finance to 350,000 SMEs creating 4 million new jobs**;
 - ✓ Availing EGP200 billion to the SME sector over 4 years by requiring each bank's SME portfolio to constitute 20% of its total credit portfolio within that period.
 - ✓ Establishing a SME specialized department within each bank.
 - ✓ Offering tailored vocational and technical training via the Egyptian Banking Institute.

CBE Actions

- ✓ **Granting facilities through the banking sector for;**
 - **Very Small and Small enterprises** with 5% interest rate, prioritizing industrial companies working in backward integration, import substitution, heavy labor projects and export companies.
 - **Medium size companies**, with 7% interest rate for capital expenditures financing of machinery and equipment over a period of 10 years capped at a maximum amount of EGP 20 million through a single bank.

CBE Approach

A dual -pronged implementation approach is being applied that;

- **Leverage and expands on existing initiatives and/or infrastructure**
 - ✓ Endorse Credit Guarantee Company (CGC)
 - ✓ Capitalize on national entrepreneurial projects
 - ✓ Align with EFSA to avail different types and sources of financing
 - ✓ Coordinate with CBE entities to enhance SMEs access to finance example; I-score, EBI,etc.

CBE Approach

➤ Capture new opportunities

- ✓ Support the establishment of an Egyptian Entrepreneurial Business Development entity
- ✓ Assist in defining SME opportunities realized from national value-chain analysis initiatives
- ✓ Establish concept of “Ready-made-Companies” pre-set financing packages ready for backward integration
- ✓ Affiliate and sponsor initiatives that are deemed impactful

Example: Universities, Accelerators and mentoring program

SMEs Challenges & Enablers

I. Financial Environment (Banking & Non-Banking Sectors)

II. Legal & Regulatory Environment

III. Operating Environment

IV. Education

I. Financial Environment

1) Banking Sector

Banks perceive SME lending as high risk* with associated high operating cost and insufficient guarantees.

- ✓ **Lack of sufficient guarantees** and collaterals to cover the identified risks
- ✓ Inability of banks to accept **movable assets** (e.g., inventory, moving vehicles) as collateral further restricts the process.
- ✓ Weak foreclosure laws, lengthy & **complex legal procedures** to liquidate collaterals
- ✓ **High operating costs** associated with SMEs lending:
 - Infrastructure costs, including huge branch networks for better outreach, systems, staff salaries and training.
 - High administrative costs for a proper system of internal control on credit initiation, monitoring and follow up of loan repayment.
 - Cost of credit analysis and asset

➤ **Leverage I-Score and CGC to mitigate perceived risk & operating costs reduction**

➤ **Support EFSA, GAFI, ..etc. spearheading obstacle resolutions**

* weak or non-existent financial documentation which in turn leads to weak credit scoring.

I. Financial Environment

2) Non-Banking Sector

Sub-optimal infrastructure is hindering the ability to develop a broad, inclusive and diverse SME sector &/or introduce meaningful benefits, non-conventional products & services.

- ✓ **Inapt human & material resources** to deal with obstacles to resolve issues and/or optimize growth is a substantial impediment to formalization
- ✓ **Fragmentation, lack of structure and skills incompetence** of relevant constituents are all contributing to the underperformance of the sector
- ✓ **Poor alignment** between **Banks, Organizations** (governmental & non-governmental) and the **Private Sector** to facilitate access to the different types of *financing sources*,
 - Venture Capital & Business Angels
 - Assets Leasing, Factoring & Mortgage
 - Equity Capital Markets
 - Government funds & SME Bonds
 - Securitization & Sukuk
 - Insurance

Up-skilling skills & capabilities of bank employees & entrepreneurs to ensure availing all types of financing via the sources throughout the lifecycle stages of the SMEs

II. Legal & Regulatory Environment

The SME sector needs to operate in a conducive legal & regulatory environment, an Egyptian Labor Market survey revealed that Egyptian SMEs are informal due to the fact that up to 60% of the "Cost of doing Business" arise from regulatory burden in the form of excessive regulations and bureaucratic procedures "Red Tape".

- ✓ Inability to use alternative forms of collaterals
- ✓ Outdated operating requirements (legislative & procedures)
- ✓ Unenforced Social Insurance law, complex registration process and expensive procedure
- ✓ Numerous entities conducting field inspections
- ✓ Ignored 10% SME procurement law
- ✓ No Bankruptcy Protection laws
- ✓ Lack of SME formalization incentives
- ✓ Unavailability favorable Tax treatment

Collaborate with ministries spearheading obstacle resolution i.e. GAFI One-Stop-Shop, MTI enforcing 10% procurement, MoF SME Incentives & Taxation

III. Operating Environment

Sector fragmentation undermines financiers ability to effectively respond to customer demands and/or establish pre-determined targeted financing programmes for supply chains, industrial clusters and agricultural co-ops

- ✓ Unavailability of structured financing packages for “ready-made-Companies” derived from value –chain analysis and backward integration
- ✓ Insufficient "Demand Driven" funding programs that actively stimulate Risk Capital to benefit from the preferential interest rates loans and introduce varying financing tenures
- ✓ Complex lending administrative processes/procedures
- ✓ Poor usage of technology and digitization
- ✓ Lack of clear value proposition or incentive that encourages formalization

Supporting the development of a national SME “Business Development” hub that enables access to relevant databases, products & services, benefits and financing

IV. Education

The financial sector and entrepreneurship environment needs to become more 'efficient, competitive and agile' to effectively serve Egypt's dynamical, evolving and growing SME sector.

- ✓ Poor overall knowledge and awareness
- ✓ Lack of sectorial data & information – *market trends, consumer preference, market reach ..etc.*
- ✓ Under-leveraged technical assistance, vocational training, ...etc.
- ✓ Under-optimization of donor funds, grants & other private sector funding
- ✓ Un-tapped economies of scale for industrial integration & exposure to export channels
- ✓ Insignificant usage of modern technology and advanced machinery/ equipment's

Avail capacity building for banks and entrepreneurs, conduct all inclusive nationwide awareness campaigns and optimize resources, skills & capabilities