

# Enhancement of the Business Environment in the Southern Mediterranean



A project funded by the European Union

# Improving Access to Finance for MSMEs in Egypt

## ***“RECOMMENDATIONS”***

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# “Recommendations”



- We are not in a court to point at bankers or MSMEs; we must work together because it is only together that we will find solutions; banks and MSMEs are closely interlinked.
- Banks are one of the most regulated industry; banks cannot do what they want; they have a supervisory authority which controls them severely; they have shareholders and a Board of Directors which set the strategy and policy of each bank.
- MSMEs have no supervisory authority; they evolve and develop within the Egyptian policies, laws and regulations.
- We will focus on recommendations to be implemented.



## A / For Public Authorities:



- Loan guarantees: Improve, increase and develop further the role of CGC-Credit Guarantee Company in terms of amount (beyond EGP 3 M), of % of coverage (beyond 75%), of duration (beyond 5 years) and of cost (less than 2%)
- MSMEs guide: Capitalize on the EBSEM MSMEs A2F guide by disseminating it and updating it annually, in order to enhance the awareness of businesses on existing instruments ([www.ebsem.eu](http://www.ebsem.eu); [www.imc-egypt.org](http://www.imc-egypt.org))
- Single-window contact: Establish a one-stop-shop for MSMEs seeking for assistance and information about support programs; a structure that will provide technical assistance, advice and training to MSMEs in the areas of legal, tax, management, cash flow training, financial advisory, etc



## A / For Public Authorities :



- Legal framework: Should be improved to allow banks providing alternative forms of financing such as factoring, leasing, forfeiting, mezzanine, etc. and/or to allow the creation of companies specialized in leasing, factoring, forfeiting, crowd-funding, etc.
- Support/Turnaround Fund: Create a fund to help viable MSMEs, who encounter problems of temporary cash, because of problems beyond their control. One support fund for distressed MSMEs is scheduled to be launched by the end of this year.
- Regional investment funds: Encourage the establishment of **free zones** in poor / remote areas by offering tax incentives, access to land, infrastructure, etc. and facilitating the creation of regional investment funds



## B / For MSMEs:



- Credit applications: Improve the quality of the files presented to the banks in terms of:
  - \* viability of the project;
  - \* capitalization level;
  - \* profitability;
  - \* indebtedness;
  - \* cash flow and capacity of repaying the debt, etc
  
- Guarantees: Provide assistance in terms of collateral management and improve the guarantee system to support SMEs
  
- Accounting: Hold reliable audited financial accounts



## B / For MSMEs:



The main documents required to study a credit application file are:

- \* The financial statements certified for the last 3 years + an interim and recent financial statement
- \* The legal documents (statutes, registry of trade, etc)
- \* The feasibility study / justification of the credit request
- \* The proposed guarantee (real estate guarantee, personal guarantee, financial guarantee, CGC guarantee, etc)
- \* The banks' statements of account and commitments



## B / For MSMEs:



Criteria's for the assessment of a file, from a bank point of view, are:

- \* The quality of the file presented with all documents required by the Bank
- \* The certified financial statements showing the financial situation of the company i.e. capitalization, profitability, reimbursement capacity, indebtedness, etc
- \* The proposed guarantee
- \* The Promoter's credibility (shareholders and executives)
- \* Commitments with other banks (Central Bank credit bureau statement)



## B / For MSMEs:



+ Add to all the above, the conditions specific to each bank:

- \* its strategy,
- \* its liquidity availability,
- \* the respect of the ratios imposed by Central Bank,
- \* the choice between different transactions,
- \* their commitment to the sector of activity,
- \* etc, etc...



## C / For Banks:



There are 40 banks in Egypt (3 development banks, 3 public banks and 34 private banks) + The Social Fund for Development (SFD).

◦ Dedicated structures: creation within each bank dedicated structures only to MSMEs:

- \* Specialized departments
- \* Train bank staff and management
- \* Credit assessment: risk analysis systems should be adjusted to the particularities of MSMEs lending and to the economic sector in which they evolve
- \* Reorganize bank branches
- \* Allocate resources dedicated only to MSMEs
- \* Board of Directors should allow a certain envelope for lending to MSMEs



## C / For Banks:



- Accelerate decision making: Long duration to get approval of a bank on loans:
  - \* MSMEs applying for a loan must obtain, immediately and after discussion with the Business development manager, a refusal or an agreement, from the bank, to continue studying the file, in order not to waste the time, both for MSMEs and Banks
  - \* A complete credit application must be treated within a period of 15 days
- Syndication: Promote and increase risk sharing among banks
- High collateral on bank loans: Change lending requirement's mentality of banks from real guarantee to cash flow assessment
- Additional bank activities: Develop non-conventional banking instruments such as forfeiting, factoring, leasing, etc, provided legal framework follows



**Thank you for your attention**

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