

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

“Improving Access to Finance for MSMEs in Palestine”

Ramallah, 8 February 2017



A project funded by the European Union



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Session 2: Findings of the 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 advisors, the SBA Coordinators, the EBSM Team Leader
- Focus groups involved both demand and supply side (SME TC)
- Relevant national agencies have been involved



4. Mapping: Scope and limitations



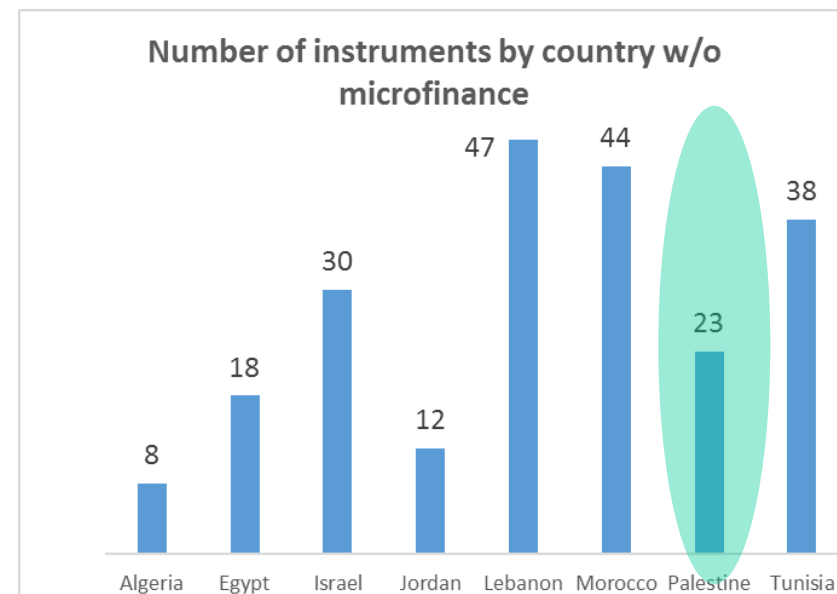
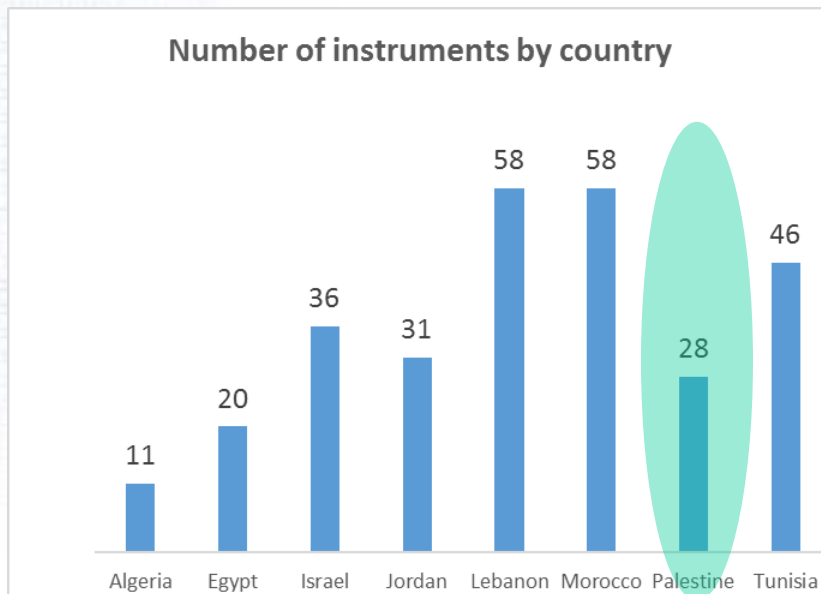
- The mapping concerns only **public or publicly-funded policies and programmes**
- The absence of public programme is not always indicating a gap, as the private sector may address the demand (ex. High tech VCs)
- The mapping tries to be as exhaustive *as possible*, but some small sized initiatives 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
- Lebanon and Morocco having the densest portfolio of instruments



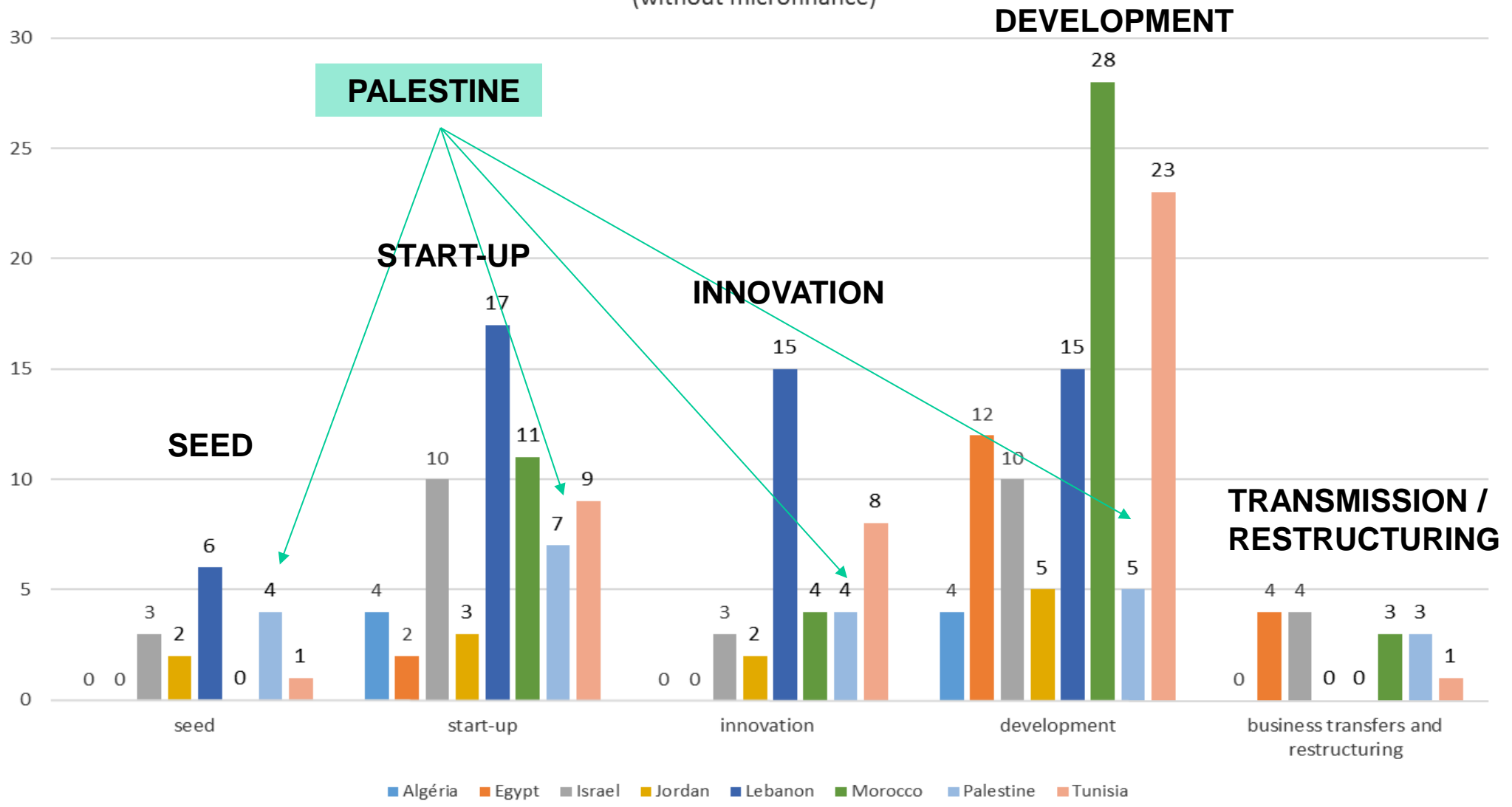
* Instruments being defined as a window for a specific stage of enterprise development, some windows have several instruments (e.g. a Guarantee Fund managing several instruments).



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



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





5.2 Distribution by MSME development stages (2/2)



Findings

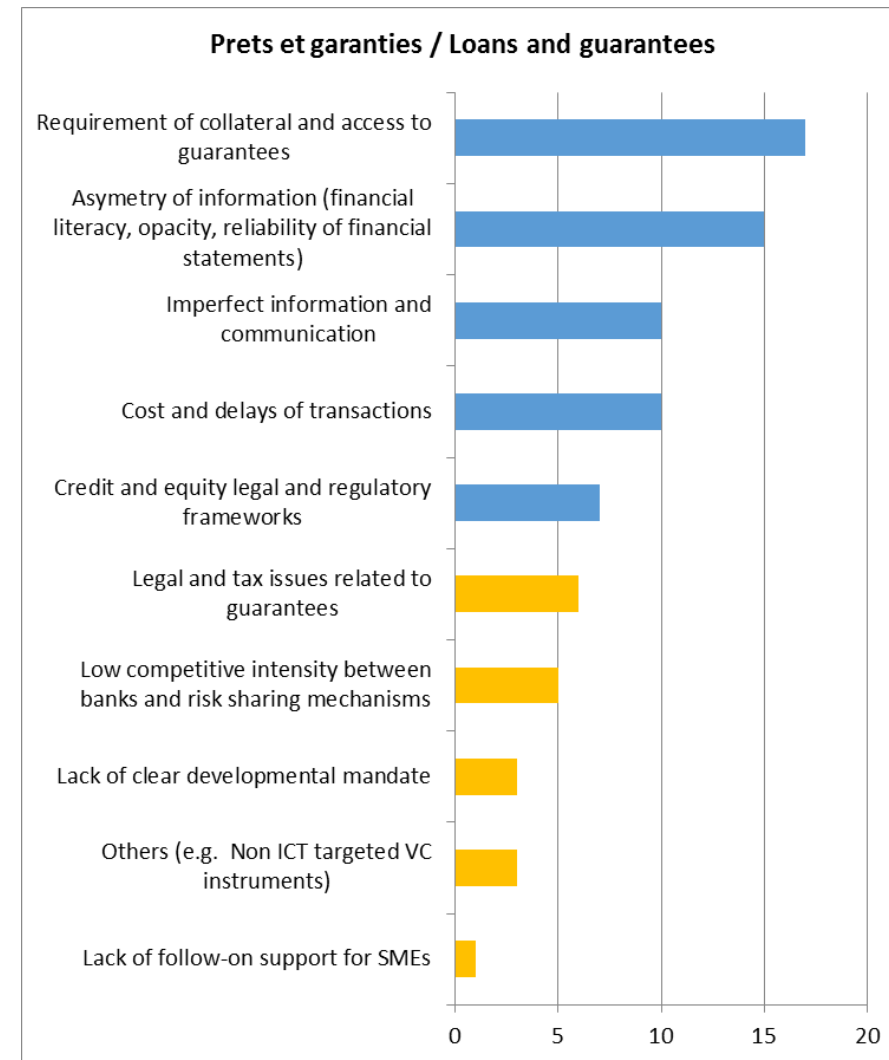
- The **distribution of instruments** by enterprise development stage is globally similar by country
- Illustrating the last 15 year policies supporting **entrepreneurship**
- But still, concentration of on the **business development phase**
- Secondary peak on the **creation phase**
- Weaknesses in terms of **incubation, financial restructuring and transmission**
- But, Palestine is particularly active in the seed and start-up segments
- With great room for improvement on the development phase



5.4 Weaknesses at Regional Level (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 at Regional level (Risk capital)

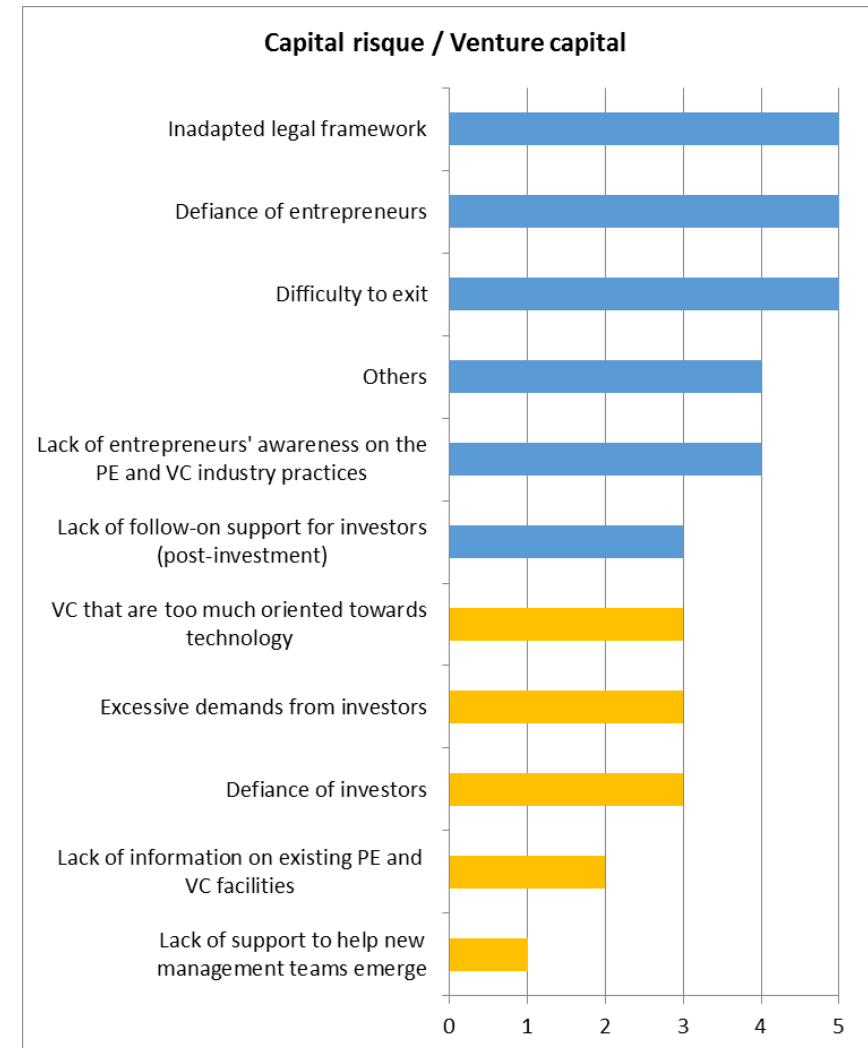


- **Key issues**

- 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 at Regional level (Microfinance)

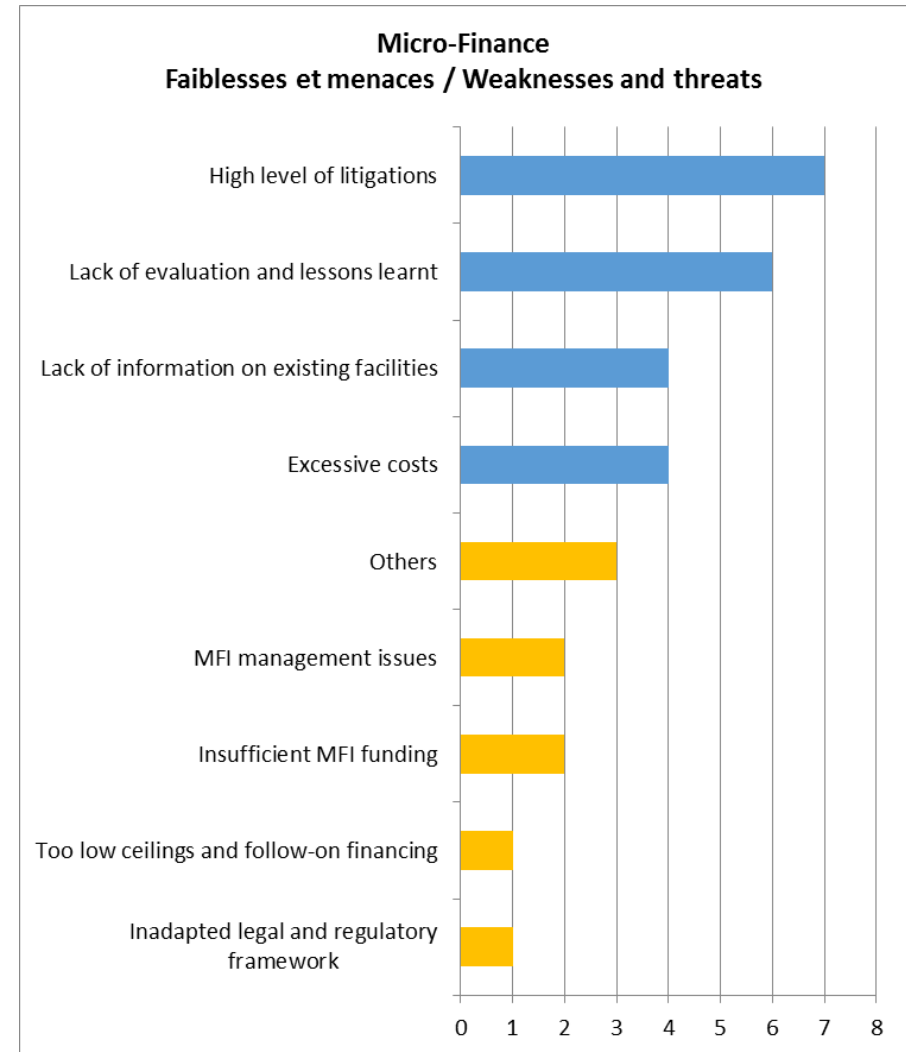


- **Key issues**

- 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. Results: Regulatory issues



- Lack of registry of moveable assets (in preparation in June 2016)
- Lack of access to registry of the MNE
- Insufficient capacities of the judicial to secure creditors' / minority rights

| 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. Results: Demand side



- Inability to estimate sales / Stagnation of revenues / Proof of Registration
- Skills gap / Feasibility studies / Project aversion / Lack of academic interest
- Lack of training / Security culture / Media

| 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. Results: Supply side



- Excessive collateral requirements / No clear file requirts.. / No SME units
- Lack of qualified SME-credit officers / Lack of information on SMEs, sectors, benchmarks

| Supply | ALG | EGY | ISR | JOR | LEB | MOR | PAL | TUN | Total |
|---|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| Insufficient risk-sharing mechanism notably for start-ups | 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?

- **26 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. Results: 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 | | | 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 |
| Civil service targeted at supporting SMEs | | | 1 | | | | | | 1 |



11. Highlight on GPs (Reg. / Dem.)



| Regulatory | Objectives | Efficiency |
|--|--|--|
| PMA adoption of a unified definition for SMEs | Helping stakeholders analyse data, assess risks, monitor development and put forward strategic plans for the development of SMEs | Increased efficiency as the definition set forth by MONE pursuant to the Cabinet decision dated 4/10/2011 didn't reflect the reality of SMEs in Palestine. |
| PMA adoption of the Financial Inclusion Strategy | Facilitating access to such services across a wide segment of enterprises | Enhancing the SMEs financial capabilities through conducting consumer awareness. |
| Demand | Objectives | Efficiency |
| Creation of a database for facilities extended to SMEs | Monitoring different risks to the various economic sectors and enhancing the abilities and capacities of the SMEs sector | To properly manage unforeseen credit risk and therefore increase the lending capacity by reducing error margins. |



12. GPs Highlights (Supply)



| Supply | Objectives | Efficiency |
|--|---|---|
| The PMA established the SMEs Technical Committee. | Revise strategies for SMEs and formulate necessary recommendations for stakeholders for the development of the sector | Increased coordination and access to financing sources. |
| Motivation and creation of the proper environment for the banking sector to grant facilities to SMEs | The PMA issued circular (53/2013) to motivate banking institutions and create the proper environment for them to expand facilities for SMEs and promote investment in that sector | Increase the liquidity for SMEs from banks and MFIs. |
| | Motivating banking institutions to grant facilities to SMEs by offering an exemption from allocating 2% to general risk reserves | Promote competition amongst various lending sources, thereby reducing interest rates for the benefit of SMEs. |



13. Recommendations



Demand

1. Develop and publish toolkits
2. Ease registration (streamlining, delays and costs)
3. Skills enhancement (e.g. financial and business planning, technical skills)

Supply

1. Give FIs access to SME data at MNE
2. Modify Art. 32 of Banking Law (3) 2010: inquiries about receivables
3. Expedite the work for the Blended Score Card for SMEs.
4. Unified and simplified SME Financial Records.

Intermediation

1. Operationalizing the Moveable Assets Registry Law



14. Harnessing reforms



- Is the *international benchmarking* “inspirational”?
- How can the work of the *technical committee* be facilitated?
- Is the *supply side* playing the game? And should they?
- Is the *demand side* professional and transparent enough? And can they?
- What about the non-financial support ecosystem contribution? Are we doing *enough* of the *right* things?

THE DEBATE IS YOURS