

Facilitating access to finance for MSMEs



Context

In South Med Economies (MED), micro, small and medium sized enterprises (MSMEs), cannot access financing at affordable interest rates. Studies show that, in this region, less than 20% of credit financing goes to MSMEs, amongst which many are entirely “unbanked”. These small-scale operators suffer from prohibitive transaction costs, erratic cash-flow, constrains for asset accumulation, and have little opportunity to leverage their own funds with outside financing.

This situation perpetuates and widens the divide between the most vulnerable groups and those benefiting from integrated services, mainly large corporations. It also prevents start-ups in sufficient number to absorb demography’s employment needs and ensure wealth generation throughout the economy.

Access to Finance (A2F) is therefore a critical economic and social issue, hindering businesses which could have a large transformative effect on the economy through innovation, R&D, knowledge integration and locally produced value added, in addition to their job-creation potential.

Financial services allow MSMEs to raise national competitiveness, increase employment, contribute to growth and generate income, notably for women and youths and in remote areas.

EBESM response

The A2F activity addressed the issue of how “access to finance” can be turned, in the eight partner countries, from an obstacle into a driver of economic growth and employment.



Solutions are needed and called for, since both demand and supply sides of the finance market agree that policies and regulatory framework need urgent reforms. However, the dynamics of reform is to be considered with caution as market imperfections generate rents that are strongly defended by both sides of the market.

EBESM strategy has been to address A2F issues, which may appear as fundamentally national, from a regional perspective, by identifying good practices in each country that could be prudently adapted and adopted by the other countries of the region. Such a broadening of the playing field offers a lever for policy makers. When other countries carry out policy reforms and legislative improvements, it can accelerate decision and action.

How did EBESM work?

The A2F activity that aims to contribute to unlock Access to Finance for MSMEs in the MED region in a sustainable manner was deployed as follows:

Creation of a “Working Group on Access to Finance”

This Working Group was established, in close collaboration with national SBA coordinators, to support their coordination work on access to finance by raising awareness, sharing information and good practices about existing public policies.

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Beyond policies, it addressed financial mechanisms and bank instruments supporting MSMEs' financial needs (e.g. guarantees, risk capital, microfinance, etc.).

This Working Group (one member per country) also helped structure the regional industrial dialogue on A2F issues and supervised, with the national SBA coordinators, all the mapping exercise carried out in each country, the key findings and formulated policy recommendations that were presented, at both national and regional level.

Mapping Study of existing public financial instruments

To assess programmes' effectiveness, EBESM led exhaustive research to identify existing public financial instruments in each MED country serving the financial needs of MSMEs. This was inspired by DG GROW's mapping exercise at EU Member State level. Through this, EBESM measured the relative position of each MED country in relation to public policies for finance supply and demand. EBESM also studied regulatory and intermediation issues and assessed strengths and weaknesses of each instrument. Lastly, it identified best practices at country level that neighbouring countries could prudently adapt/adopt.

Regional Seminars and In-Country Seminars

Two Regional Seminars on Access to Finance were held in Brussels in November 2015 and February 2016, to identify, discuss and prioritise major reforms needed to promote MSME financial inclusion in the MED region.

From May 2016 to February 2017, six in-country seminars were organised in Tunisia, Algeria, Jordan, Egypt, Lebanon and Palestine, to prioritise reforms needed. Organised in close coordination with the SBA Coordinator and the Access to Finance Advisor, their specific objectives were:

- Inform national stakeholders, in particular MSMEs, of available financing schemes, programmes and instruments in each country;
- Share good practices (regional, European and international) on public policies, mechanisms and instruments (e.g. guarantee schemes, risk sharing mechanisms, venture capital, etc.);
- Discuss policy recommendations at national level and formulate country-specific actionable and sustainable recommendations.

Participants, working with EBESM experts, produced concrete reform strategies and policy proposals, collectively finding tangible and sustainable solutions.

As a follow up, several countries requested EBESM technical support to introduce alternative or complementary financial instruments:

1. Law on crowdfunding for Tunisia,
2. Stock exchange and platforms for SMEs for Israel,
3. Mezzanine finance for Egypt,
4. Export financing instruments for Palestine.

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What was achieved?

Drawing on the instruments and tools of the SME Policy Index, and based on national countries' priorities, key recommendations were formulated, formalised as action plans, and have become a road-map towards improved policies to facilitate access to finance for MSMEs:

1. **Increasing the availability of long term finance and risk capital:** replacing short-term deposits in treasury instruments by more investment-oriented uses and change risk profile of capital channelled towards the productive sector.
2. **Building up capacity of financial institutions to deal with MSMEs:** mainstreaming MSME financing into banks' and other Financial Institutions' strategies.
3. **Increasing competition between financial institutions:** enlarging offer of MSME finance, often supplied by few institutions in each country, causing in low competition and supply-driven market. Alternative instruments enlarge offer and spur competition.
4. **Fostering financial literacy and business development services:** financial literacy is often low, making interface between the financial sector and businesses inefficient.
5. **Increasing the outreach of guarantees and risk-sharing instruments:** through better regulations and innovation, guarantee mechanisms can help the most vulnerable targets.
6. **Encouraging Venture capital (VC) and private equity financing:** these are constrained by too few good projects, excessive focus on high-tech and lack of exit strategies. Public support can align the legal environment with international good practices, support emergence of funds targeting enterprise needs throughout their development and provide tax incentives to investing funds.
7. **Developing a harmonised and robust monitoring system:** presently handicapped by confidentiality, commercial strategies and permanently changing pool of financing. This is an impediment to policy-making and financial planning. Recommendation is to adopt a harmonised and regularly updated reporting framework.