

Enhancement of the Business Environment in the Southern Mediterranean

For: Egypt



A project funded by the European Union



Working Meeting of MED SBA Coordinators and Access to Finance Advisors

Preliminary Findings of the Mapping Exercise Brussels – 24 November 2015



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1. Progress of the Mapping Exercise



1) Loan guarantees and risk-sharing facilities

- Programs: CGC (funded by IMC which is the development arm of ministry of trade and industry)
- The Credit Guarantee Company (CGC) started in 2006 to guarantee the beneficiary company's loan up to 75% of working capital and 50% of bank loans, the loan must not exceed around 1.2 million Euro.
- From 2012 until end of October 2015 CGC has been working with 379 clients, issued letters of guarantee with an amount of around 50 million Euro for loans of around 200 million Euro, approximately.



1. Progress of the Mapping Exercise



2) Leasing

Only three (3) leasing companies working on SMEs segment in which public banks and institutions are contributing in the capital of these leasing companies

- Around **1 billion Euro** is the total equipment leasing portfolio until the end of September including around **0.6 billion Euro** resulting from purchasing two equipment used in the New Suez Canal project, compared to around 0,2 billion Euro for the same period in 2014.
- Around **1.7 billion Euro** is the total leasing portfolio until the end of September 2015 taking into consideration that the leasing portfolio includes real estate, equipment and other assets, compared to 0.6 billion for the same period in 2014 .
- A large variety of sectors are targeted from leasing firms such as: Real Estate, Pharmaceuticals, Food and Beverages.
- French and Danish loans are examples for **Equipment Loans** in Egypt. (i.e. Danish loan interest rate is 2.5% that must go through the Environmental Compliance Office).



1. Progress of the Mapping Exercise



3) Equity and Venture Capital (including business angels' network)

- There are 8 active SMEs private equity funds with a size of around 1.1 billion Euro working on wide range of sectors.
- One distressed fund for SMEs will be launched the first week of December 2015.
- EBRD began working in Egypt in 2012 with around 18,6 million Euro until end of October 2015.
- There are around 100 angel investors in Egypt and they are all working closely with 5 incubators.
- Three venture capital companies in the Egyptian Market:
 - Idevelopers is currently working on 17 companies with a total fund of around 37 million Euro,
 - SAWARI on 6 companies with a total fund of around 56 million Euro from 2011 till now
 - Vodafone ventures working with a capital of around 2.4 million Euro



1. Progress of the Mapping Exercise



4) Micro-finance

- The SFD Central Microfinance Sector provides funds through intermediary agencies (banks ,venture capital funds and NGOs) so that they offer credit facilities to start-up and/or existing micro enterprises in all sectors.
- Start-Ups represent 40% of SFD's portfolio.
- Other micro-finance institutions: Bedaya, Rifi, Tanmeya, Tasahil and **440 NGOs**.
- Bank Misr, Banque du Caire, the SFD and the NGOs finance the informal sector.



1. Progress of the Mapping Exercise



5) Innovative finance (e.g. crowd funding, group lending, suppliers finance)

- Few crowd funding platforms are operating in Egypt such as : Akar funder, Shekra, Sherkaty, yomken and Tennra.
- One of the Venture Capital Houses is “Cairo Angels” that has made 8 investments, each ranging from 29,400 to 11,7000 Euro per company.
- All funds are from private investors who decide upon the presentation of the entrepreneurs to their ideas, whether to invest in the new projects or not.



2. Strengths and Weaknesses of the instruments



#	Instrument	Strengths	Weaknesses	Comments
1	Leasing	<ul style="list-style-type: none"> Control of ownership Income tax savings Cash flow friendly Less time consuming Fixed medium term funding Document simplicity 	<ul style="list-style-type: none"> High interest rate of loans Limited focus on SMEs 	<ul style="list-style-type: none"> It is needed to increase number of companies focusing on SMEs and also special fund for financing the equipment
2	Loan guarantees	<ul style="list-style-type: none"> Encouraging the banking sector to lend SMEs. Less time consuming Facilitates the lending process 	<ul style="list-style-type: none"> Too expensive 	There is only one firm working on this tool
3	Equity and venture capital	<ul style="list-style-type: none"> It suits the Egyptian culture. Easier process than Banks Risk appetite Restructuring. Less regulations 	<ul style="list-style-type: none"> Superficial market Lack of awareness Lack of data (I-score) Fundraising 	We need to simplify the regulation to establish new funds specially the local funds
4	Micro-finance	<ul style="list-style-type: none"> It covers a huge segment in the market They fund the informal sector (SFD) 	<ul style="list-style-type: none"> Less collaterals. High risk . Poor regulatory framework. Limited number of institutions targeting the micro level. Poor infrastructure of the micro firms . 	This sector needs guidance , technical assistance and capacity building programs
5	Innovative finance (crowd funding, group lending, suppliers finance, etc.	<ul style="list-style-type: none"> Fast and easy way for funding new projects Suitable for start-ups 	<ul style="list-style-type: none"> Awareness Copy right 	These tools need to have a defined regulatory frame and to increase number of crowd funds



3. Good practices Identified



The Egyptian government has taken several forward steps towards a better environment for MSMEs helping them access to finance and grow.

Highlights:

1- Banking system reforms in 2008

- The CBE (Central Bank of Egypt) allowed banks to lower their reserve requirements (14%), in case of expanding their portfolio lending to SMEs
- Objective: Encourage banks to lend SMEs
- Efficiency: Although a good step that many banks now are having activities with SMEs, results did not come as expected, SMEs portfolios are still weak (high cost, high risk and less profitability)



3. Good practices Identified



Highlights: (Continued)

2- NILEX stock exchange for SMEs

NILEX supports the capital raising activities of small and mid cap developing companies

Objective:

- Unlimited Long-term Finance
- Cheap Financing cost
- Relaxed Rules & Regulation
- Dedicated Funds to ensure liquidity
- Full Government Support
- Lower Listing Fees (0.5 per thousand of the capital)
- Local & Foreign investors' interest

Efficiency:

- 31 companies are listed in NILEX
- The main sectors participating in NILEX are Food and Beverages, Real Estate and Pharmaceuticals.
- Awareness among the SMEs segment concerning the NILEX program is still an obstacle.



4. Key Challenges identified



Demand side (MSMEs)

- Lack of awareness of the available financial instruments.
- Lack of financial knowledge
- Narrow financial background
- Insufficient security for property rights , collateral guarantees, recovery of loans
- Legal requirements from the banks side.
- Lots of restricting regulations and few incentives for the start-ups business
- Long process for loans and high interest rate
- Weak contracts of the supply chain enterprises, that make them ineligible to be financed



4. Key Challenges identified



Supply side (Financial Institutions):

- No standard definition of SMEs.
- Lack of transparency in financial statements, and holding double books.
- Financing SMEs represents high cost, high risk and weak profit.
- Unprofessionalism of SMEs, non-organizational structure, lack of specialization (One man show).
- Lack of data concerning the SMEs.
- Less preferable sectors : Tourism and textile.

4. Necessary reforms and proposed solutions



- Special funds for the start up business and the micro finance.
- Increase the number of angel investors.
- Increase number of mezzanine, venture capital ,private equity funds
- Capacity building programs (finance for non financials, costing , pricing , budgeting, etc....).
- More focus on other instruments rather than banking such as NILEX , Factoring and Insurance.
- Create an authority grouping SMEs.
- Develop awareness programs for the available financial tools.
- Review the taxing scheme for this segment, in a way that encourages MSMEs to honestly declare their business.
- Create Market Intelligence Company: to gather data from the company's external environment, such as buyers and suppliers to provide a complete picture of its performance.
- Provide free samples templates with different types of contracts (sales, joint ventures, franchise contracts, etc...) that will enable SMEs to have standardization of their operations with different parties without any cost .



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