



Enhancement of the Business Environment in the Southern Mediterranean

“SME financial inclusion – Role of Banks and Credit Guarantee schemes” - Amman, 24 August 2016

Session 2: Discussion of priority actions as identified by the study and testimonials



A project funded by the European Union



1. 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



2. Phasing



In-country level (Nov15-Jan16)

- Support to the SBA Coordinators and A2F advisors
- Desktop studies / Focus groups
- Factsheets, good practices, SWOTs, recommendations
- Elaboration of country reports

At (sub-)regional level (Jan16-Apr16)

- Database building and analysis
- Key recommendations at regional level
- Assistance to the selection and elaboration of action plans

At national level (May16-Nov16)

- Support to launching action plan implementation
- Seminars to raise awareness, share good practices and disseminate results



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 counsellors, the SBA Coordinators, the EBSM Team Leader
- Focus groups involved both demand and supply side
- Relevant national agencies have been involved



4. Mapping: Scope and limitations



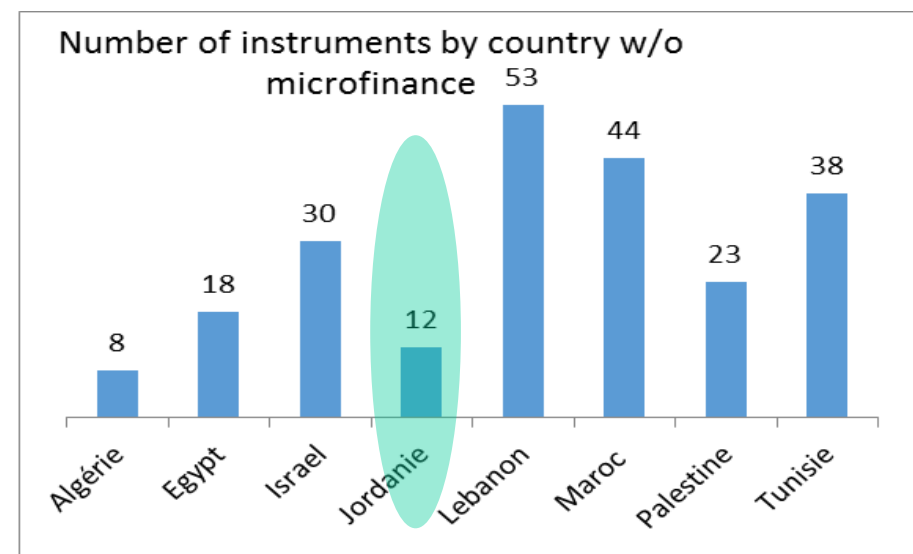
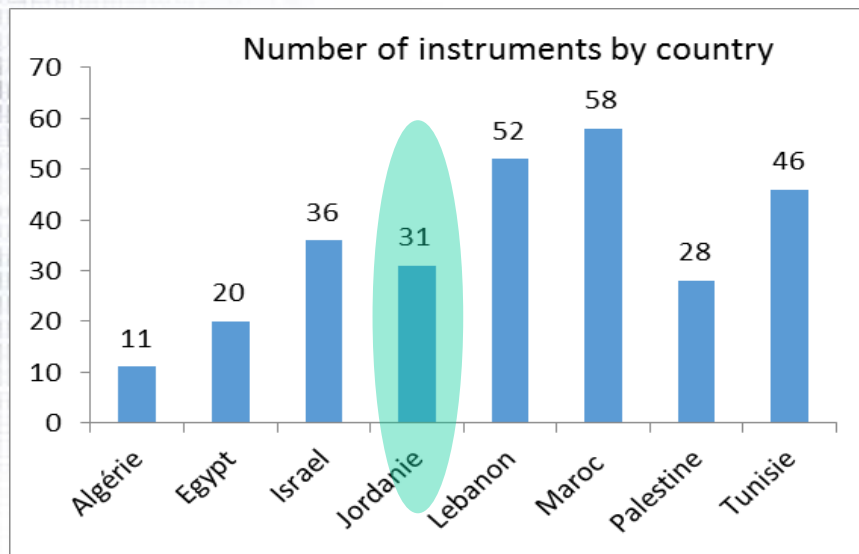
- The mapping concerns only **public or publicly-funded** programmes
- The absence of public programme is not always indicating a gap, as the private sector may address the demand (ex. High tech VCs)
- The mapping tries to be as exhaustive *as possible*, but some small sized initiatives may have passed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



- 98 public programmes identified
- 291 public-sponsored instruments* (232 without microfinance)
- Availability of instruments is contrasted by countries
- Morocco & Lebanon having the densest portfolio of instruments



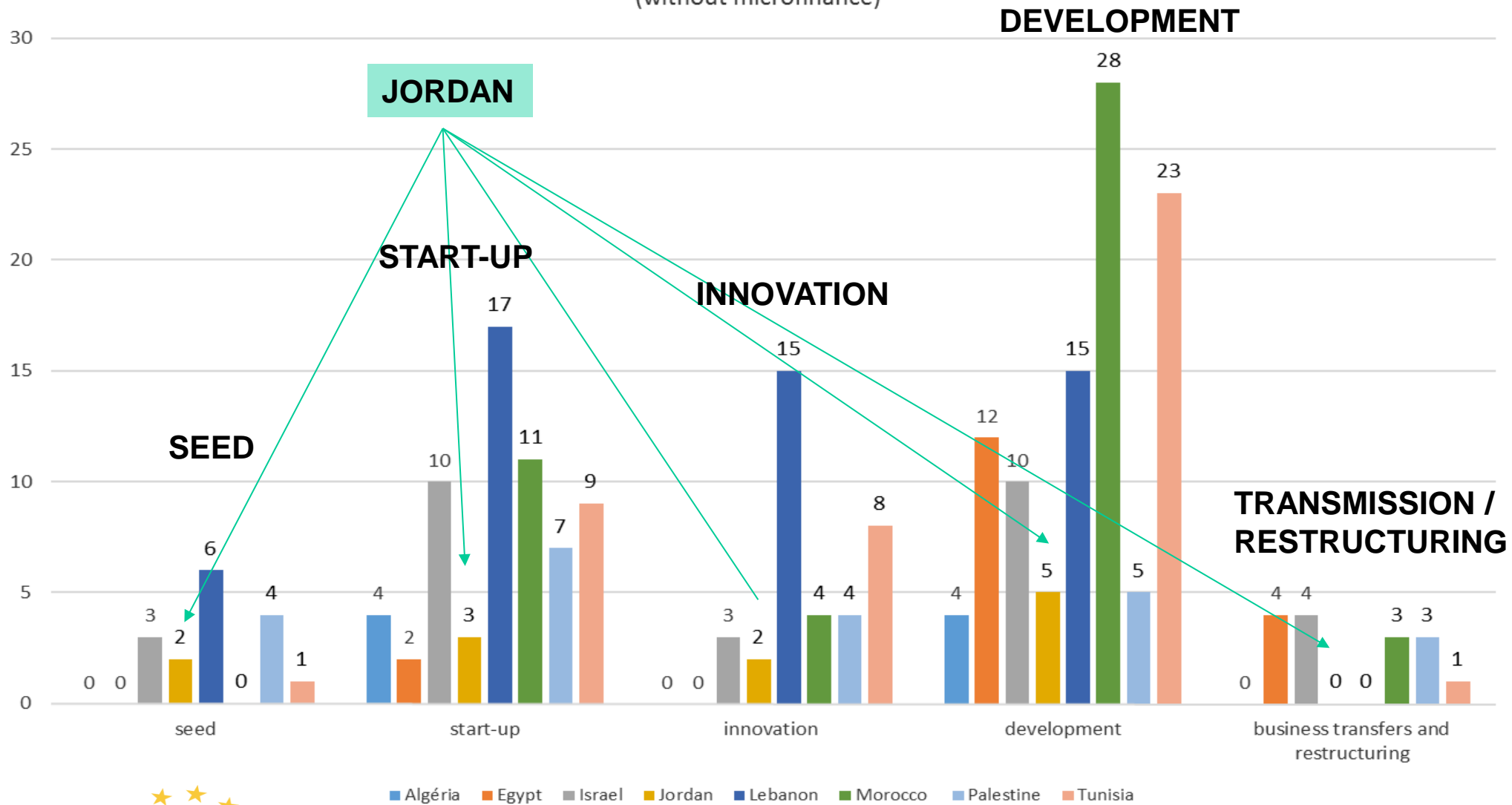
* Instruments being defined as a window for a specific stage of enterprise development, some windows have several instruments (e.g. a Guarantee Fund managing several instruments).



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

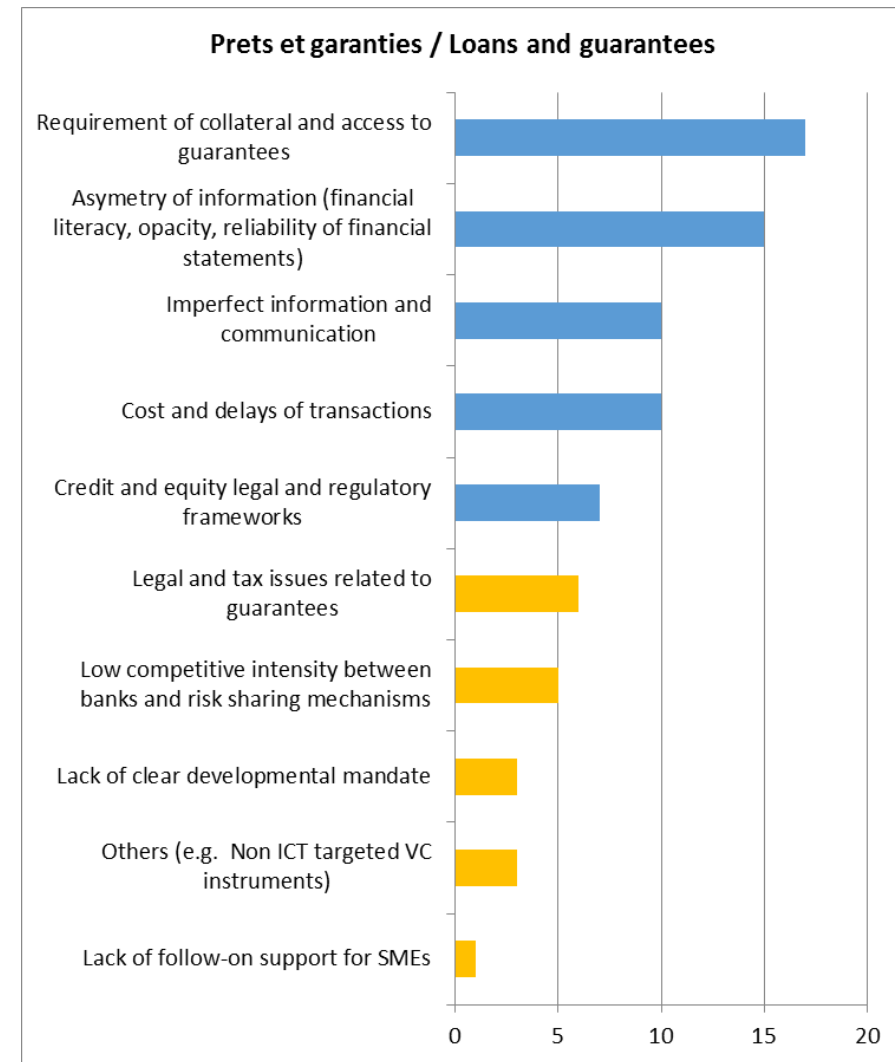
- The **distribution of instruments** by enterprise development stage is similar by country, except in Algeria, which seems to slightly favor the transmission instead of creation
- Concentration of financing instruments on the **business development phase**
- Secondary peak on the **creation phase**
- Weaknesses in terms of **incubation, financial restructuring and transmission**
- Jordan **underperforms** in terms of diversity of instruments in all categories
- This advocates for the **deployment of special efforts** in this respect



5.4 Weaknesses and threats (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 and threats (Risk capital)

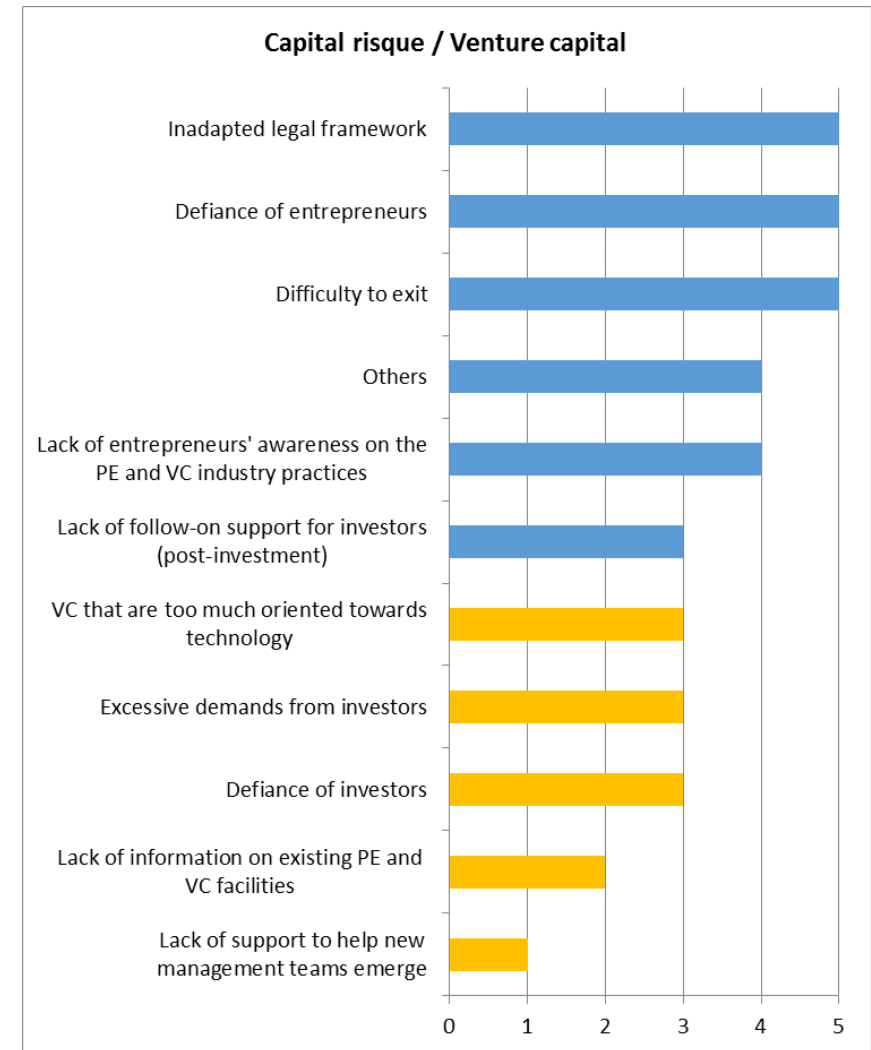


- **Key issues**

- 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 and threats (Microfinance)

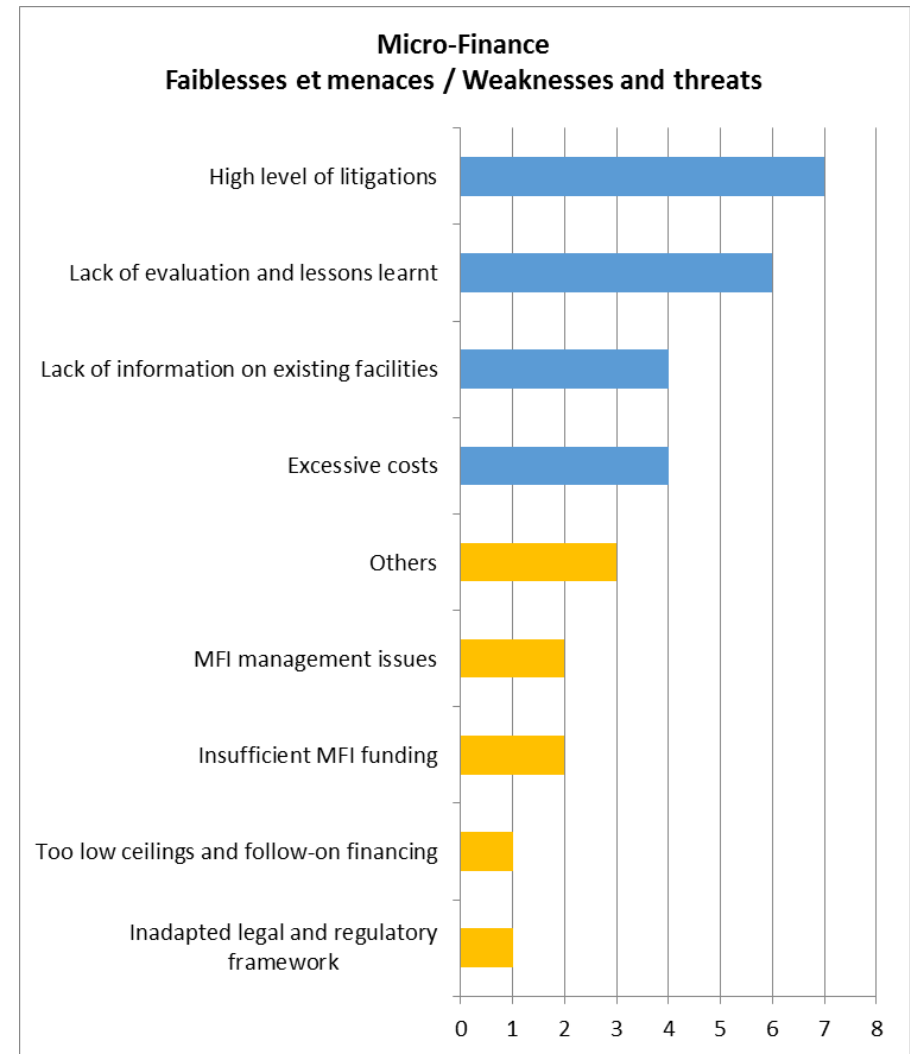


- **Key issues**

- 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. Result of the mapping of regulatory issues



- Cumbersome regulations for start-up is across the board
- Lack of unified operational definition of SMEs
- Insufficient capacities of the judicial
- And 8 other issues: can we set priorities?

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. Result of the mapping of demand side



- Transparency, governance, too high interest rates vs. EBITDA
- Lack of credit history and collateral
- A vast array of other issues: to be prioritized...

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. Result of the mapping of supply side



- Insufficient risk-sharing mechanism
- Attractiveness, lack of data, 2F BDS
- And 12 other obstacles! Let's discuss how this could be approached

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



9.1 Jordan Focus group SWOT (Demand)



Strengths

- SMEs: 98% of number of register companies
- Contribution to Jordan economic development
- Quality of ideas
- Motivated entrepreneurs with innovative ideas

Opportunities

- High growth rate
- Increase Government and donor interest
- The introduction and availability of different mentoring programs
- The introduction of entrepreneurial skills at elementary schools and university education

Weaknesses

- Lack of credit histories and collateral
- Lack of entrepreneurship skills
- Not unified definition of MSMEs
- Limited managerial and technical skills

Threats

- Deficient of one stop shop service
- Regulatory approvals delay the development of projects
- High investment costs
- The unavailability of funding
- The unavailability of infrastructure in governorates



9.2 Jordan Focus group SWOT (Supply)



Strength

- Liquid banking system, excess liquidity at banks
- The availability of international funds
- Innovative financing tools
- Strong banking system
- Large number of point of services (700 banks branches)

Opportunities

- High donor interest
- Incentives introduced by CBJ
- Changing mind set of the banking sector to have the lending decision based on future cash flows
- Activating the Credit Bureau will lead to more transparent banking system

Weaknesses

- Eligibility criteria
- Complicated Application forms
- Unskilled labour
- Risk averse managerial decisions
- Credit decisions are based on the availability of collaterals and guarantees
- Unavailability of the early stage funding

Threats

- No legal eligibility limiting the types of institutions that can engage in MF lending.
- Lack of data and information sharing
- Insufficient risk sharing mechanisms
- No credit scoring system



10. Good Practices Mapping



What does the mapping bring out?

- 27 good practices identified (perception)
- But only 34 occurrences => exchanging good practices is valuable
- 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. Result of the mapping of 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



Thank you for your attention

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Recommendations



- Recommendations formulated through a collaborative and participatory process at country level:
- **41 generic recommendations** classified under ‘Supply (8)’ ‘Demand’ (17) ‘Regulatory (12)’ ‘Financial services (4)’
- These **recommendations** have been consolidated and ranked by occurrence in the region (highest occurrences in blue)
- The **perception of the needs** is contrasted by country (no all-country recommendation, 7 recommendations common to 4 countries or more)



Recommendations specific to Jordan



Short term

- Building the capacity of the supply side on SME lending techniques and opportunities;
- Strengthening risk sharing mechanisms;
- Attracting more donors' funding.

Medium term

- Improving the regulatory and incentives provided for MSMEs
- Reinforcing the guarantees and venture capital facilities
- Reducing the information gap faced by MSMEs in accessing finance and
- Facilitating their access to capital markets.

In the long term

- Establishing the legal framework including the appropriate legal and tax treatments in accordance with international best practices



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