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**Enhancement of the Business Environment in the
Southern Mediterranean**

**Assessment of Egyptian Policies and instruments to
Facilitate Access to Finance for MSMEs**

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Abbreviations and Acronyms

MSMEs	Micro, Small & Medium Enterprises
IMC	Industrial Modernization Centre
SFD	Social Fund for Development
WACC	Weighted Average Cost Of Capital
NBE	National Bank of Egypt
CBE	Central Bank of Egypt ¹
NGOs	Non-Governmental Organizations
GAFI	General Authority for Investment
CGC	Credit Guarantee Company
ECGE	Export Credit Guarantee Company of Egypt
MFI	Micro Finance Institution
GIRAFE	An innovative and unique analytical rating approach to evaluate MFIs performance and institutional risks

¹**Exchange Rate:** Please note that the exchange rate used in this document is as per the Central Bank of Egypt's official rate on January 14th, 2016. EUR 1 = EGP 8.5567 \$ 1 = EGP 7.8301

1. INTRODUCTION

Micro, Small and Medium Enterprises represent an unmistakable source of growth for the Egyptian economy and contribute to 80% of GDP. The high number of MSME workers indicates that this type of business can help with Egypt's unemployment crisis.

As MSMEs constitute more than 86% of private enterprises in Egypt, accounting for nearly 75% of all employment generation and hence, playing a key role in the economic activity and employment.

As regards the MSME definition, it tends to shift depending on the topic or the policy objectives and activities under consideration. There was notably no definition by the Central Bank of Egypt until December 1st, 2015, which was an obstacle to the launching of harmonized policies and instruments but this issue is solved now that the Central Bank published a standard definition for the MSMEs, described below²:

1. *Micro Enterprises*

- a. Existing Firms: Sales and yearly revenues must not exceed EGP 1 million (EUR 117,000) and the number of employees should be less than 10 individuals
- b. New Firms (under construction): Paid capital must not surpass EGP 50,000 (EUR 6,000) and the number of employees should be under 10 individuals

2. *Very Small Enterprises*

- a. Existing Firms: The range of sales and yearly revenues (business size) has to be between EGP 1 million – EGP 10 million (EUR117, 000 - EUR 1.2 million). Employee size should be below 200 individuals
- b. New Firms (under construction): Paid capital has to range between EGP 50,000 – EGP 5 million (EUR 6,000 - EUR 590,000) for industrial enterprises and EGP 3 million (EUR 351,000) for non-industrial ones. Employee size should be lower than 200 individuals

3. *Small Enterprises*

- a. Existing Firms: Business size ranges between EGP 10 million – EGP 20 million (EUR 1.2 million - EUR 2.34 million). Number of employees must be less than 200 individuals
- b. New Firms (under construction): Range of paid capital for industrial enterprises is EGP 5 million – EGP 10 million (EUR 590,000 - EUR 1.2 million) and EGP 3 million – EGP 5 million (EUR 351,000 - EUR 590,000) for non-industrial ones. Less than 200 individuals employed

4. *Medium Enterprises*

- a. Existing Firms: Sales and yearly revenues range between EGP 20 million – EGP 100 million (EUR 2.34 million - EUR 12 million). Number of employees should be under 200 individuals

² Please note that the new policies and definitions will be mentioned again in the "Identified Good Practice" section, page 27.

- b. New Firms (under construction): Still undefined, however employee size should be below 200 individuals

MSMEs face many obstacles to launch and sustain their activities, access to finance being among the most prominent ones. Only 47% of SMEs are dealing with banks and 22.4% having access to finance (only 10% are estimated to have recourse to term loans).

Reducing this SME financing gap in Egypt would increase the incentive for SMEs creation and consequently improve economic growth and employment generation. In addition improving access to finance for MSMEs could significantly promote innovative entrepreneurship, thus contributing to value added and the creation of qualified jobs.

It is worth mentioning that the geographical distribution of SMEs is significantly concentrated, since almost half of them are concentrated in only three governorates (Cairo, Gharbeya and Sharkeya). They are mainly operating in two economic sectors, namely manufacturing and trade. Moreover, 60% of SMEs adopt a sole- proprietorship structure in which there is no legal distinction between the owner and the business, while only 6% of them are exporting.

As part of the EBESM study on A2F in the region, this report presents the different financial instruments dealing with MSMEs in Egypt, with special attention given to the public programs and initiatives that aim at helping MSMEs grow and sustain their businesses.

It also includes a SWOT analysis for each instrument, a SWOT analysis for the demand and the supply sides of the financial market regarding the MSMEs, all based on a focus group meeting held at the Industrial Modernization Centre (IMC) that gathered a number of stakeholders from both the demand and supply sides. Good Practices by the Egyptian Government are identified and finally, the study is concluded by an identification of the main problems and the key policy and instrument recommendations that could contribute to improve access to finance in Egypt³.

³ <http://www.msmenewsnetwork.com/index.php/richard-keery>
<http://english.ahram.org.eg/NewsContent/3/12/1278/Business/Economy/There-is-a-clear-%E2%80%98missing-middle%E2%80%99-gap-in-Egypt-SM.aspx>

2. Country profile

The Egyptian Government has taken firm steps to improve the business climate for MSMEs and their chances to access to finance through different initiatives and programs. The main players of the SME financing scene are as follows:

Banking Sector: There are 40 banks in Egypt out of which: 3 development banks, 3 public banks and 34 private banks). The Central Bank of Egypt (CBE) in 2008 embarked upon a drastic reform programme (that led to new channel for financing MSMEs), whereby the banking sector was encouraged to finance MSMEs by reducing the percentage of the reserve requirement by 10% for the MSMEs lender. Additional incentives have already taken place in December 2015 by the CBE. The details of the reform and the new incentives will be elaborated in the good practice section. Since recently, most of the commercial banks have developed their SME lending units, even though they essentially fund their SME lending activities on external funds (mainly SFD).

The Social Fund for Development (SFD): The SFD⁴, that manages several public and donor funded programmes, plays a pivotal role in helping MSMEs to access the proper finance, by providing finance for existing and start-ups companies and provide guidance and support to start-ups to become eligible as per the requirements.

Loan guarantees and risk-sharing facilities: Credit Guarantee Company (CGC) is an Egyptian, joint stock company; it was established in December 1989 to assist in developing the MSMEs sector through the application of different guarantee mechanisms to encourage financial institutional to meet the financial needs of the MSMEs segment. The CGC have tree main programs: SMEs programs that includes the small and medium scale Enterprises program, The Industrial Modernization Program, and the Micro Programs that includes the Small and Emerging Businesses Support Program (funded by USAID).

Equity and Venture Capital and Business Angels: At present there are eight active SME private equity funds amounting to EUR 1.1 billion (EGP 9.5 billion), out of which one only is public. Egypt has approximately one hundred (100) angel investors, all of which are working closely with five incubators (Nahdet El Mahrousa, Flat6Labs, Venture Lab, Tahrir and Shekra). In addition, there are three venture capital companies operating in the Egyptian market (Ideavelopers, Sawari and Vodafone venture).

Leasing: There are only one public leasing company working on the SMEs segment. Until the end of September 2015, the total leasing portfolio (corporate and SMEs) amounted to approximately EUR17 billion (EGP145.5 billion). The leasing portfolio includes real estate, equipment and other assets, whereas the targeted sectors are real estate, pharmaceuticals, Food and Beverages.

Stock Exchange (NILEX⁵): The Nilex is the first stock exchange market for SMEs in the Middle East.

⁴ Please refer to SFD's factsheet hereunder for more thorough information

⁵ <http://nilex.egyptse.com/Default.aspx>
<http://alexbank.smetoolkit.org/egypt/en/content/en/8009/Nilex?view=print>
<http://www.egx.com.eg/English/MarketIndicator.aspx>
<http://www.sme-egypt.org/supportingactivities/Pages/NILEX.aspx>
www.sfdegypt.org

Micro - Finance: The SFD Central Microfinance Sector provides funds through intermediary agencies, such as banks, Venture Capital funds and NGOs, which offer credit facilities to start-up and/or existing micro enterprises in all sectors. Start-Ups represent 40% of SFD's portfolio. Other private micro-finance institutions include Bedaya, Rifi, Tanmeya, Tasahil and 440 NGOs.

Non Performing SMEs Companies: One support fund for distressed SMEs is scheduled to be launched in 2016.

Loans	
Programme	Public Bank Loans for SMEs
Characteristics	<p>The National Bank of Egypt (NBE), jointly with the Social Fund for Development, the African Development Bank, the French Agency for Development, EBRD and EIB, has launched a number of programs to help SMEs in Egypt have better access to finance. NBE offers distinctive packages of financing to suit all project funding needs of Small and medium enterprises, in terms of interest rates, and reimbursement terms and conditions of guarantees.</p> <p>Banque Misr finances MSMEs through 3 different programs: AL Batal (<i>The Champion</i>), Mashrouay (<i>My Project</i>) and Al Rabeh (<i>The Winner</i>) directed respectively to Micro firms, small and Medium enterprises.</p>
Total Amount committed	<p>National Bank of Egypt: Maximum loan up to EGP 2 million (EUR 234,000)</p> <p>Banque Misr: Micro firms: loans between EGP 1,000 (EUR 120) and EGP 50,000 (EUR 6,000) Small firms: loans between EGP 50000 (EUR 6,000) and EGP 2 million (EUR 234,000) Medium firms: loans between EGP 2 million (EUR 234,000) and EGP 30 million (EUR 3.5 million)</p>
Application procedure	<p>National Bank of Egypt: Standard required documents (National ID, business premises ownership or leasing contract & utility bill, recent commercial register, tax ID number, business license or a letter indicating that it is in the course of being issued for new Projects, tax and insurance positions, last 3 financial statements and a recent financial position) accompanied with a simple feasibility study and quotation in case of investment financing. Documents to be completed according to the nature of the activity.</p> <p>Banque Misr: Standard required documents mentioned above</p>
Eligibility and restrictions	<p>NBE defines SMEs as the enterprises with average income/sales up to EGP 11 million (EUR 1.3 million) for small businesses, and more than that up to EGP 100 million (EUR 11.7 million) for medium enterprises). For the new projects, the reference of evaluation is the expected income</p> <p>Banque Misr: For a micro firm, to be eligible for a loan, the owner must be Egyptian, age not less than 21 years and not more than 65 years by the loan maturity date. In case of being 65 years old, a guarantor who won't be more than 65 years old by the maturity date must be involved.</p>
Terms	<p>NBE: For the program launched in coordination with the Social Fund for Development:</p> <ul style="list-style-type: none"> • Maximum loan: EGP 2 million (EUR 234,000); • The geographical coverage: All governorates; • Interest rate: 10% simple; • Projects Beneficiaries: all projects; • Reimbursement period: a maximum of four years in addition to a year allowed; • Guarantees: A personal guarantee and insurance against the risk of non-payment. Client self-contribution: maximum of 25%. <p>For the programs launched in coordination with the other agencies there is no subsidized interest rate.</p> <p>Banque Misr: The bank provides loans to finance working investment of micro enterprises provided that they have been working for at least one year. Medium term loans to be repaid through monthly or quarterly instalments</p>

Contact	<p>NBE Head Office <u>Address:</u> NBE Tower, 1187 Corniche El Nil St., Boulak, Cairo. <u>Telephone:</u> +202 - 25945000 <u>Fax:</u> +202 – 25945137</p> <p>Banque Misr Head Office <u>Address:</u> 151 Mohamed Farid St., Down Town Cairo<u>Tel .:</u> +202 - 23912172/029 <u>Fax .:</u> +202 - 23908464/23925768</p>
Link	<p>www.nbe.com.eg/en www.banquemisr.com</p>

Loans	
Programme	SFD Subsidized Loans
Characteristics	<p>Lending through Banks and NGOs or direct lending are all of SFD mechanisms for fulfilling the needs of micro, small and medium enterprises. Accordingly, SFD signs contracts with banks and NGOs to finance start-up and/or existing enterprises capitalizing on the branches these banks have in all the governorates of Egypt.</p> <p>The SFD regional office provides advice to clients and assists them in preparing the initial feasibility study for their potential enterprise once they satisfy loan documents and then refers their requests to these banks or NGOs for examination and taking the credit decision.</p>
Total Amount committed	Loan size starts from EGP 10,000 (EUR 1.200) and increases to EGP 2 million (EUR 234,000). It may also rise to EGP 10 million (EUR 1.2 million) for such enterprises engaged in power generation through solar energy.
Application procedure	<p>Loan Procedures:</p> <p>Clients present their requests to the SFD regional offices. They may apply directly to the banks or NGOs dealing with SFD once they have the main documents completed.</p> <p>Loan Procedures for direct lending:</p> <ul style="list-style-type: none"> • The client fills out a loan request within the SFD regional office; • The client identifies his/her financial needs and presents the loan documents ; • The request is then examined and submitted to appraisal committees for approval.
Eligibility and restrictions	<p>Loan Eligibility Criteria</p> <ul style="list-style-type: none"> • Legal capacity, literacy; • Residency in the governorate in which the enterprise will be established; • Exhibition of military service status (completion / exemption / postponement). <p>Target Groups</p> <ul style="list-style-type: none"> • The unemployed youth; • Artisans with adequate know-how and capacity to manage a small enterprise; • Small entrepreneurs.
Terms	Loan value is determined according to the enterprise actual need, taking into consideration the projected growth rates in case of financing working capital or new machines and equipment after calculating the client self-finance percentages.
Contact	<p>Social Fund for Development Head Office Address : 120 Mohi El Din Abu El Ezz St., Dokki, Giza - Egypt Tel.: +202 33364842 - 33364371 - 33364367 - 33364873 Fax: +202 33361985 E-mail : mailmaster@sfdegypt.org</p>
Link	www.sfdegypt.org

Loans Guarantee	
Programme	IMP Credit Guarantee Fund
Characteristics	<p>This program is being implemented by the Credit Guarantee Company (CGC) whereby CGC would guarantee the repayment by the beneficiary client with a maximum of 75% of working capital and 50% of loans provided by the banks, where the loan amount does not exceed <u>EGP 10 million (EUR1.2 million)</u> and the guarantee does not exceed EGP 3 million (EUR 351,000).</p> <p>This fund was initially funded by the Industrial Modernization Centre (IMC), under the EU financed Industrial Modernization Programme, and started in 2006.</p>
Total Amount committed	<p>The fund capital is EGP 85.6 million (EUR 10 million)</p> <p>From 2012 until end of October 2015 CGC has been working with 379 clients, issued letters of guarantee with an amount of EGP 0.5 billion (EUR 58.5 million) for loans of approximately EGP 1.5 billion (EUR 175.4 million)</p>
Application procedure	<ul style="list-style-type: none"> • The client submits a request to IMC officer in the Financial Services ; Department to obtain the loan guarantee and submits his file after studying it; • Clients go directly to CGC or the banks then they get the guarantee if they are illegible according to the criteria set for this program
Eligibility and restrictions	<ul style="list-style-type: none"> • The borrower must have an existing business: to be a registered legal entity for a minimum of two years and have audited financial statements as well; • Start-up businesses are excluded ; • The company should have at least 10 employees.
Terms	<ul style="list-style-type: none"> • Guarantees will only be available in Egyptian pounds • Guarantee coverage will be up to 75% for working capital and 50% for bank loans • CGC shall charge the participating bank a usual and reasonable guarantee fee estimated at 2% of the value of the guarantee provided in relation to the loan , payable annually in advance; such fee to be the sole property of CGC • In case of default under a loan CGC will pay the relevant participating bank the amount due under the corresponding guarantee
Contact	<p>Name: Credit Guarantee Company Address: 92, El Tahrir St. Saridar Tower, Dokki, Giza, Egypt Zip code: 12611 Telephone: 002 -02-37626664 Fax: 002 -02- 37625401 Mohamed Abdel Hamid, Chairman Nagla Bahr, Managing Director</p>
Link	www.cgcegypt.com

Loans Guarantee	
Programme	Credit Guarantee Company (Small and Medium Enterprises Program)
Characteristics	This program is a jointly funded program by the Government of Egypt and the United States Agency for International Development assisting viable SMEs lacking sufficient collateral to obtain the needed finance from different financial institutions. It is targeting all new and existing SMEs with total investment ranging from EGP 40.000 (EUR 4.700) to EGP 50 million (EUR 5.9 million) excluding land and building value.
Total Amount committed	The capital of this program is approximately EGP 10.3 million (EUR 1.2 million) The program provided cumulated guarantees totalling approximately EGP 2 billion (EUR 234 million) supporting loans totalling approximately EGP 10 billion (EUR 1.2 billion).
Application procedure	The clients reach CGC through banks as there is an agreement between CGC and all banks to send them the client with the eligibility criteria and the financial study.
Eligibility and restrictions	<ul style="list-style-type: none"> • The program targets all new and existing SMEs; • Guarantee limit: EGP 10,000 (EUR 1,200) up to EGP 3 million (EUR 351.000).
Terms	<ul style="list-style-type: none"> • Guarantees will only be available in Egyptian pounds; • Guarantee coverage will be up to 75% of the approved facility; • Guarantee Duration : from 6 months up to 5 years; • Finance type: all types including Morabha and Mudarbah; • CGC charges a fee estimated at 2% of the guarantees value provided in relation to the loan, payable annually in advance; • CGC will pay the relevant participating bank the amount due in case of default.
Contact	Name: Credit Guarantee Company Address: 92, El Tahrir St., Saridar Tower, Dokki, Giza, Egypt Zip code: 12611 Telephone: 002 -02-37626664 Fax : 002 -02- 37625401 Mohamed Abdel Hamid , Chairman Nagla Bahr, Managing Director
Link	www.cgcegypt.com

Loans Guarantee	
Programme	Credit Guarantee Company (Small and Emerging Businesses (SEBs) –The Micro Program)
Characteristics	This is a United States Agency for International Development (USAID) funded program. CGC provide a guarantee to facilitate access to finance to contracted microfinance institutions (MFIs). The guarantee is associated with comprehensive technical assistance and training for the contracted MFIs and involves intense monitoring and evaluation of the generated portfolios of these MFIs. This program participates in achieving the government objective of economic development and poverty alleviation through the establishment and operation of sustainable MFIs to serve the needs of Egypt's small and micro business sector.
Total Amount committed	Total fund : EGP 64.6 million (EUR 7.5 million) Outstanding loan portfolio : EGP 151.3 million (EUR17.6 million) Outstanding guarantee portfolio : EGP 97.9 million (EUR11.4 million)
Application procedure	CGC employees study the market and decide whether the MFI is eligible to take the service or not and it depends upon the status of the involved MFIs and the characteristics of the involved portfolios and their associated risks.
Eligibility and Restrictions	MFIs are capable of providing financial and technical services to low income and self-employed clients in the country. They may be NGOs or business associations, provided that they serve the following target groups: <ul style="list-style-type: none"> • Poor Women (Solidarity Group or Group Lending): Women with no or very low income running simple activities to earn their living; • Micro Enterprise Category: Micro enterprises with up to 10 employees, and with assets less than EGP 25,000 (EUR3,000); • Small Enterprise Category: small enterprises with more than 10 employees, and with assets exceeding EGP 25,000 (EUR3,000).
Terms	<ul style="list-style-type: none"> • Maximum amount of guarantees EGP 3 million (EUR350,000); • Maximum duration of guarantees 5 years and it's renewable; • Guarantee coverage average 75% and based on program; • Guarantee fees : 1-3 % of the outstanding guarantee on an annual basis based on program nature and risk associated with an average weight of 2% • Default policy: considering CBE default and provisioning system and customize as needed based on program nature. Default 4%.
Contact	Credit Guarantee Company 92, El Tahrir St., Saridar Tower, Dokki, Giza, Egypt - 12611 Telephone : 002 -02-37626664 Fax : 002 -02- 37625401 Mohamed Abdel Hamid , Chairman Nagla Bahr, Managing Director
Link	www.cgcegypt.com

Stock Exchange Market	
Programme	Nile Stock Exchange (NILEX)
Characteristics	<p>NILEX was launched on June 3rd 2010, by the Egyptian Exchange (EGX), to be the first market for growing small and medium enterprises (SMEs) in the MENA region.</p> <p>NILEX is an appropriate access to capital, long term financing, as well as a proper exit scenario for Venture Capitalists who finance SMEs in Egypt, through Initial Public Offerings (IPOs).</p> <p>To be listed on NILEX, an SME has to have a nominated advisor, which helps, advises and assists applicant companies on all their responsibilities throughout the application period, as well as helps in the disclosure obligation, and report any misconduct by the applicant to the Capital Market Authority (CMA).</p> <p>The nominated advisor assists the applicant companies in their IPOs and does research coverage on their stocks.</p> <p>Nominated advisors are to carry their obligations for a period of two years from the date of the applicant company's listing on NILEX.</p>
Total Amount committed	Due to the fact that NILEX is a trading platform for SMEs, there is no amount committed for financing. Yet, over the last three years, the number of listed companies on NILEX increased from 22 in 2012 to 31 as of Oct. 2015, and a market capitalization from EGP 1 billion (EUR117 million) to EGP 1.2 billion (EUR140.3 million) over the same period.
Application procedure	<p>Before and after listing, the applicant company has to have a nominated advisor who is acting as a sponsor for the SME, ensuring its compliance to the listing and disclosure rules of NILEX.</p> <p>Once the final approval is granted, the company proceeds to an IPO to get the required financing.</p> <p>It is worth to mention that the listing fees are 0.5 per thousand of the applicant capital (with a minimum of EGP 500,000 (EUR60,000), and a maximum of EGP 50 million (EUR 5.8 million).</p>
Eligibility and restrictions	<ul style="list-style-type: none"> • According to NILEX rules, the applicant companies issued capital have to be fully paid with a minimum of EGP 1 million (EUR 117,000) and a maximum of EGP 50 million (EUR 5.9 million); • Applicants have to show two audited financial years' statements; • Applicants with only one financial year statement, have to present a three years projected financial plan for the company; • The applicant has to offer at least 10% of the shares to be free floated on NILEX; • All the listed securities should be deposited at the Central Depository; • No constraints on trading the shares should be in the company's by-laws; • The company's shareholders equity must not be less than 50% of the company's capital in the year prior to the listing; • Major shareholders have to undertake to own at least 51% of the company's share, and at least 25% of the listed shares.
Terms	<p>All listed securities must be deposited at the Central Depository.</p> <p>Disclosure of corporate actions and material events must be maintained, to ensure transparency, efficiency and to protect investors.</p> <p>Quarterly issued financial statements should be regularly submitted, within 45 days of end of period. Annual financials are to be audited and submitted Within 90 days of the end of the company's fiscal year.</p> <p>In case of dividend distribution, it is to be published via trading terminals and the stock exchange website.</p>
Contact	<p>The Egyptian Exchange 4A, El Sheriefen St., Postal Code 11513 P.O. Box 358 Mohamed Farid, Downtown, Cairo Tel: (202) 3928698 / 3921402 / 3921447 Fax: (202) 392421</p>
Link	http://nilex.egyptse.com/Main_About_Nilex.aspx

Private Equity	
Programme	Bedaya Fund
Characteristics	<p>Bedaya is a private equity fund dedicated for investing and developing SMEs. The fund was issued by Small and Medium Enterprise Investment Fund Company (SMEIFC), which is owned by the General Authority for Investments (GAFI) 80%, the Insurance Holding Company 10% and Misr Insurance Company 10%, respectively.</p> <p>The fund is managed by El Ahly for Development and Investments (ADI) and its affiliate Cairo Financial Holding (CFH).</p> <p>The fund aims at investing in SMEs and developing their businesses, through providing the required finance, together with assisting their management on how to efficiently run their businesses, in order to maximize their profitability and that of the fund.</p> <p>The fund was approved and started operating in July 2012, as a close ended fund with certificates that are offered to investors for subscription. The investment manager is ADI. The fund period is 10 years.</p>
Total Amount committed	The fund size is EGP 250 million (EUR 29.3 million), distributed over 2.5 million certificates, at a par value of EGP 100 (EUR 12) each.
Application procedure	The fund manager research the applicant SMEs, as well as research the market for small and medium enterprises with success stories, that need financing and chooses the ones with high growth potential, according to the investment policy of the fund.
Eligibility and restrictions	<p>The fund invests in SMEs, which capital or net asset value ranges between EGP 25 million (EUR 3 million) and EGP 50 million (EUR 5.9 million), and which turnover don't exceed EGP 120 million (EUR 14.1 million).</p> <p>The fund doesn't invest in one company over 25% of the total fund size.</p> <p>Maximum ticket size per company cannot exceed EGP 15 million (EUR 1.8 million).</p> <p>The fund cannot invest in the following sectors: Real estate development, tobacco, alcohol, casinos and businesses that rely solely on imports.</p> <p>The fund cannot invest over 25% of the total assets under management in one sector, to ensure sector diversification.</p> <p>A maximum of 40% of the fund could be allocated in Greater Cairo, while the rest has to cover other Egyptian governorate.</p> <p>Fund manager has to avoid any conflict of interest at all time.</p>
Terms	<p>The fund invests in SMEs, listed or non-listed, established or under establishment, with a capital not less than EGP 2 million (EUR 234,000) and don't exceed EGP 50 million (EUR 5.9 million). And a maximum of 50% of the fund should be invested in SMEs, with a capital or Net Asset Value average between EGP 25 million (EUR 3 million) and EGP 50 million (EUR 5.9 million), and turnover don't exceed EGP 120 million (EUR 14.1 million).</p> <p>The fund manager has to exit investments through the stock market, for both listed and unlisted investments.</p>
Contact	<p>Mr. Amr El Badri (El Ahly for Development and Investments (ADI)) (202) 27515275</p> <p>Mr. Omar Ascar (Cairo Financial Holding (CFH)) 7 El Nahda St., Maadi Tel: (202) 25780793</p>
Link	http://bedayafund.com/

Leasing	
Programme	ORIX Leasing Egypt S.A.E
Characteristics	<p>ORIX Leasing Egypt SAE (OLE), one of the first Lessors in the Arab Republic of Egypt, was formed as a joint venture between leading international development institutions to provide medium term financing by way of equipment leasing. It was incorporated as an unlisted joint stock company under the Investment Law in June 1997 and commenced operations in October 1997.</p> <p>OLE focuses on medium and small ticket leasing. However, it serves large enterprises also. The Company places emphasis on building long-term relationships in all its dealings. It is a leading company providing medium term financing to small and medium-sized enterprises.</p> <p>OLE provides lease financing for up to five years at fixed cost. Assets leased include passenger cars, buses, commercial vehicles, plant, machinery, office equipment and real estate.</p> <p>A wide range of business sectors are served including manufacturing, food & beverage, pharmaceutical, transport, trading, distribution, engineering and services etc.</p> <ul style="list-style-type: none"> • Notable shareholders include: National Bank of Egypt (NBE):24% and International Finance Cooperation (IFC):7.5%; • Commercial International investment company (CIIC): 7.5%; • ORIX corporation Japan (ORIX):23%; • ORIX leasing Pakistan limited (OLP):23%; • Majid AL Futtain ventures LLC (MAF):15%.
Total Amount committed	OLE's authorized share capital is EGP 100 million (EUR 11.7 million), of which EGP 40 million (EUR 4.7 million) is issued and fully paid
Application procedure	<p>A leasing proposal can be processed quickly and simply. In order that OLE can consider the request for leasing facilities and respond quickly to the enquiry, the enterprise has to inform OLE with the requirement on their business letterhead, giving a brief background about the nature of the business, its corporate status, ownership and products together with copies of the following:</p> <ul style="list-style-type: none"> • Balance sheet and profit and loss accounts, where possible audited, for the last three completed years together with notes and analysis of major items; • Commercial register – latest; • Statutes (articles of association, deed of partnership etc.); • Tax card; • ID card or passport of main sponsors; • Latest Protesto and bankruptcy certificate. <p>Further documents may be required, if so, they normally only have to be submitted in the advanced stages of completing the contract.</p> <p>The prospective Lessee selects the equipment / vehicle, finds the supplier and negotiates the price because he knows his own business better than OLE does and understands his requirements. He then requests OLE for a lease facility by submitting the required legal documents and financial statements etc.</p> <p>On receipt of basic information about the Lessee, OLE will make an offer covering the main conditions of the proposed contract. A satisfactory credit evaluation (carried out by OLE) is a main condition of this offer. The Lessee's acceptance of the offer will enable OLE to proceed with the evaluation</p>
Eligibility and Restrictions	The prospective Lessee provide his financial and business affairs to start the credit evaluation needed and to study the financial needs of the clients, All such information is received in strict confidence and will not be disclosed or released outside OLE.

<p>Terms</p>	<p>On approval of credit, the lease contract and other documents are signed, asset is insured from an approved insurance company and a security deposit is paid by the Lessee. On completion of all documentation formalities, a confirmed purchase order is issued to the selected supplier for delivery of the equipment to the Lessee on behalf of OLE.</p> <p>Payment for the equipment will be made by OLE directly to the supplier once the equipment has been delivered to the Lessee.</p> <p>OLE will normally finance 80% to 90% of the cost of the equipment, which means that the Lessee finances 10% from his own resources in the form of security deposit.</p> <p>In return, OLE will charge a monthly/quarterly rent in advance for the period of contract, which will typically be three to five years.</p> <p>OLE requires the Lessee to be responsible for maintenance and insurance of the equipment. In case of vehicles, the title of the vehicle remains with ORIX as owner and the Lessee as user. After the successful completion of the contract, title is transferred to the Lessee or its nominee.</p>
<p>Contact</p>	<p>2, Abd El Kader Hamza St., Cairo Center Bldg., 5th floor Garden City Cairo Telephone: 27922757-9 Telefax: 27922760</p>
<p>Link</p>	<p>http://www.orix-egypt.com</p>

Leasing	
Programme	Plus Leasing
Characteristics	<p>Plus Leasing was established in 2013 and started operating in 2014. It offers Shariaa compliant, specialized and swift leasing solutions to help Egyptian SMEs acquire and use assets.</p> <p>It offers leasing to any company with turnover up to EGP 100 million (EUR 11.7 million) and it leases general purpose assets such as Real Estate, Machinery and Equipment and Vehicles.</p> <p>Shareholders are Tharwa Capital and Banks</p>
Total Amount committed	EGP 40 million (EUR 4.7 million) capital
Application procedure	<p>5 steps:</p> <ul style="list-style-type: none"> • Fill in application • Submit simple documentation • Accept their offer • Receive their approval • Sign lease documentation
Eligibility and restrictions	Not available
Terms	<p>The client can use the asset and pays pre-determined rentals over agreed period for the use of the asset. The client has the right/option to own the asset at any given time.</p> <p>It is:</p> <ul style="list-style-type: none"> • Specialised in financing assets; • Long term and short term; • Off balance sheet; • Assets are insured; • Shariaa compliant. <p>It deals with all vendors and suppliers of machinery and equipment in Egypt. The vendor / supplier is included in its approved list after simply completing basic documents and procedures</p> <p>It has an active list of Business and Financial Consultants in all fields suitable for SMEs.</p>
Contact	<p>Address: 56 Gamaet Al Dowal Al Arabia St., Floor 20, Mohandeseen, Giza - Egypt</p> <p>Email: plus.info@plusleasing.com</p> <p>Telephone: +202-33387126 or +202-33387212</p> <p>Fax: +202-33387201</p>
Link	www.plusleasing.net

Islamic Finance	
Programme	Islamic Murabaha
Characteristics	<p>"Murabaha" is an agreement between the lender (as a seller) and the client (as a buyer) through which the lender purchases the required goods to resell them to the client (according to special terms previously agreed upon) in consideration of specific return.</p> <p>The client repays the price of these goods in instalments and agrees with the Lenders (Baraka Bank, Faisal Islamic Bank, Abo Dhabi Islamic Bank) on the number of instalments and the rate of calculated return.</p> <p>"Murabaha" finances working capital, the purchase of machines/equipment, or machines associated with working capital. Productive, service-rendering, commercial, industrial, touristic and agricultural activities can be funded on condition that they are economically feasible and conform to environmental safeguards and provisions of Islamic "Sharia."</p> <p>Accessible to a new market stratum that prefers to deal with finance according to one of the methods of Islamic "Sharia."</p> <p>SFD has a project for Islamic finance lending clients directly tools also lends directly.</p>
Total Amount Committed	N/A
Application Procedure	Regular banks application procedures
Eligibility and Restrictions	Prohibit interest rate, any businesses that provide goods or services considered contrary to Islamic principles.
Terms	N/A
Contact	<p>Faisal Islamic Bank Address: 17 Falouga St., Giza Tel.: +202 19851</p> <p>Al Baraka Bank Address: 60 Mohey el Din Abo El Ezz St., Giza Tel.: +202 37481222</p> <p>Abu Dhabi Islamic Bank Address: 9A Rostom St. Garden City Tel. :+202 19951</p> <p>Social Fund for Development Head Office Address : 120 Mohi El Din Abu El Ezz St., Dokki, Giza - Egypt Tel.: +202 33364842 - 33364371 - 33364367 - 33364873</p>
Link	<p>www.faisalbank.com.eg</p> <p>www.albaraka-bank.com.eg</p> <p>www.adib.eg</p> <p>www.sfdegypt.org</p>

Microfinance	
Programme	Microfinance- SFD
Characteristics	<p>The SFD Central Microfinance Sector provides funds to intermediary agencies so that they offer credit facilities to start-up and/or existing micro enterprises on industry, trade, agriculture, services or animal production. Micro loans aim at generating income, creating jobs and providing working capital necessary for purchasing machines and equipment.</p> <p>The Central Microfinance Sector also assists the technical support unit in developing criteria of providing credit to NGOs. The Central Microfinance Sector seeks to secure the minimum physical and institutional infrastructure to ensure good governance for the credit activities.</p> <p>The Central Microfinance Sector also examines available options to develop NGOs and link them to finance sources.</p> <p>Non-financial services provided by the Central Microfinance Sector</p> <p>Technical support:</p> <ul style="list-style-type: none"> • Developing the NGO's capacity on management of micro loans • Applying microfinance best practices • Building the capacity of technical support agencies • Boosting the institutional and organizational capacities of NGOs • Developing the financial and operational efficiency and performance criteria of NGOs • Providing marketing services (through the SFD Exhibitions Department)
Total Amount committed	<ul style="list-style-type: none"> • Not Available
Application Procedure	<p>SFD Regional Office requires some documents from the NGO to get microfinance, a proposal is sent to the Central Microfinance Sector credit officer for examination according to the SFD credit policy. The proposal is submitted to the SFD committees for approval. After the committee's approval, the contract is made between the SFD and the NGO and is sent to the regional office and the NGO's Board Chairman signs the contract as a second party. Afterwards, the final file is transferred to the Central Microfinance Sector and SFD signs the contract. Two versions of the signed contract are submitted to the regional office that in turn will deliver one version to the NGO.</p> <p>Procedures – Individuals and micro enterprises</p> <p>The client visits the NGO that covers the geographical scope of his/her enterprise for a micro loan and gets acquainted with the loan terms and conditions. The NGO credit officer undertakes reporting on the client, visits the client and explains the loan general conditions and main documents required. When the client completes loan documents, the credit officer examines them and helps him/her elaborate the feasibility study. The final version of the study is submitted to the NGO's credit committee with a recommendation (approval or rejection).</p> <p>In case of approval, the accountant delivers to the client the following:</p> <ul style="list-style-type: none"> • Loan repayment schedule • Client's follow up card
Eligibility and Restrictions	<p>Procedures: NGOs</p> <ul style="list-style-type: none"> • The NGO's Statute showing the integration of microfinance or economic development in the NGO's activity provided for in its Statute. • Results of the NGO's evaluation with reference to GIRAFE scoring system. The SFD credit officer in the regional office to which the NGO is affiliate carries out the evaluation and then it is reviewed by the Central Microfinance Sector. <p>Microfinance target groups</p> <ul style="list-style-type: none"> • Women heading households • The economically active poor • Skilful artisans/technicians • The unemployed youth

	<ul style="list-style-type: none"> • Groups with special needs • Small farmers • Low-income groups <p>Eligibility criteria</p> <ul style="list-style-type: none"> • Permanent residence in the governorate in which the enterprise is implemented • The enterprise workers should not exceed 5 • Personal skills and know-how.
Terms	<p>Finance Amount/Interest Rate/Loan Repayment to Intermediaries (NGOs). Finance amount is up to EGP 5 million (EUR 590,000) and may increase to EGP 10 million (EUR 1.2 million) on the NGO's request and the evaluation of its performance criteria according to GIRAFE scoring system. In all cases, total financial obligations and potential SFD instalments to the NGO in addition to the required finance should not be more than 10% of total obligations in the current loan portfolio of the Central Microfinance Sector or EGP 10 million (EUR 1.2 million). Interest rate for the NGOs. The SFD interest rate for the NGOs is that rate prevailing in local market.</p> <p>Loan repayment by the NGO</p> <ul style="list-style-type: none"> • The enterprise duration between the NGO and SFD is 36 months including a grace period at a maximum of 18 months • Interest rates due are repaid every 6 months from the date the enterprise has started and according to the terms set forth in the contract. <p>Conditions:</p> <ul style="list-style-type: none"> • The proposed enterprise (for more than EGP 10,000 (EUR 1,200) should be existing and previously financed through two repaid loans • Total value of loans (more than EGP 10,000 (EUR 1,200) and up to EGP 25,000 (EUR 3,000) should not exceed 50% of total amounts disbursed to the NGO by SFD.
Contact	<p>Social Fund for Development Head Office Address : 120 Mohi El Din Abu El Ezz St., Dokki, Giza - Egypt Tel. : +202 33364842 - 33364371 - 33364367 - 33364873 Fax : +202 33361985 E-mail : mailmaster@sfdegypt.org</p>
Link	<p>www.sfdegypt.org</p>

Grants and Others	
Programme	Access To Finance and Financial Services Department (Industrial Modernisation Centre - IMC)
Characteristics	<p>The main purpose of this programme is to facilitate Access to Finance by encouraging the establishment of private equity instrument through participating in the capital of two funds, as well as funding a guarantee program to encourage the banking sector to lend.</p> <p>IMC also provides financial advisory services in order to maximize the investment value of companies.</p> <ul style="list-style-type: none"> • Access to Finance Assessing the clients financial needs, helping them acquire the appropriate finance through banks, leasing, investment houses and others • Capacity Building Services • Training • Consultation Services
Total Amount Committed	Private Equity Funds (EUR 15.8 million / EGP 124 million) Guarantees: CGC: EUR 10 million (EGP 85.6 million)
Application Procedure	<p>IMC offers its services to its industrial registered clients :</p> <ul style="list-style-type: none"> • Studying the Financial needs of the clients • Preparing the files (technical and Financial) • Guiding enterprises to proper Financial channels (banks, leasing, credit guarantee, stock exchange and investment houses)
Restrictions	<ul style="list-style-type: none"> • IMC serves only industrial companies • The number of employees should be at least 10 employees
Terms	<p>1. <u>Capacity Building Services</u></p> <ul style="list-style-type: none"> • Finance for Non Financials Program (Basic): The aim of this program is to increase the financial awareness; • Finance for Non Financials Program (Advanced): This is a more elaborate program to enable the clients to read financial statements, determine the growth and decline rates and predict the expected volume of the project; • Funds Management and Financial Planning Program: The aim of this program is to transfer the know-how of measuring the performance of the project and determining the safety and rationality of the investment decision; • Cost and Pricing Program: This program aims teach the clients establish a proper and adequate pricing and costing scheme; • Configure and Manage a Portfolio Lending Program: The aim of this program is to teach the NGOs the most important banking processes necessary to manage the portfolio. <p>2. <u>Consultation Services:</u></p> <ul style="list-style-type: none"> • Designing Accounting Systems: The objective of this service is to develop an accounting system that provides internal control and accounting criteria; • Designing Cost Control Systems: The objective of this service is to develop a costing system in accordance with the economic unit, and rehabilitation of the beneficiary company to use the proposed system; • Cash Flow and Financial Statements Analysis: The objective of this service is to analyse the financial statements and teach the client the know-how of financial analysis to measure the performance of the project; • Budgets Planning: The objective of this service is to estimate sales, production volume, and forecast financial reports; • Projects Feasibility Assessment: The objective of this service is to prepare a financial, economic, technical and productivity study.

Contact	Industrial Modernisation Centre 1195 Cornich El Nil, Building of the Federation of Egyptian Industries, Cairo – Egypt Telephone : 002 -02-25770090 / 08004620462 Fax : 002 -02- 25772870 E-mail : info@imc-egypt.org Ghada El Gohary, Financial Services and Access to Finance Department Director
Link	www.imc-egypt.org

Leasing	
Programme	Upper Egypt Financial Leasing Company (UElease)
Characteristics	<p>Upper Egypt Leasing Company offers finance for all SMEs. The company was founded in 2008 and is based in Assiut governorate in upper Egypt.</p> <p>The company is a partnership between Delta Holdings, UEICO, Banque Misr and International Company for Leasing (Incolease), which manages the company due to its extensive experience in the leasing sector in Egypt. Incolease has also undertaken to pass over its entire SMEs portfolio to the company.</p> <p>Delta Holdings and Incolease own a 20% share in Upper Egypt Financial Leasing Company.</p>
Total Amount committed	Paid Capital EGP 20 million (EUR 2.4 million)
Application procedure	<p>The potential lessee chooses the equipment, or vehicle.</p> <p>The customer presents the legal documents and financial statements and fills an application.</p> <p>Confidential credit evaluation is undertaken on the prospective lessee.</p> <p>Upon approval of the lease contract, the asset is insured by an accredited insurance company.</p> <p>After the completion of the procedures, the company purchases the equipment for the lessee.</p> <p>Before the completion of the lease contract, the company owns the equipment and the lessee is a user.</p> <p>Once the contract is completed, the title ownership of the equipment is transferred to the lessee.</p>
Eligibility and Restrictions	<ul style="list-style-type: none"> • Not Available
Terms	<ul style="list-style-type: none"> • Not Available
Contact	<p>Upper Egypt Leasing Co El Helali St. - El Nile Tower - 1th Floor - Assiut, Egypt +20 88 2284056 +20 88 2284057</p>
Link	www.uelease.com

3. KEY FINDINGS OF THE FOCUS GROUP MEETING

3.1 Introductory Remarks

The focus group was held on the 17th of November 2015, with 8 participants representing 7 major Egyptian financial institutions (list of participants in Annex).

The main findings of this focus group can be summarized in the following:

- Financial Instruments in Egypt are various but they prefer to deal with large companies because they are more profitable, less risky and less costly to approach.
- A main problem banks and other financial tools find in SMEs is their lack of financial background as well as the weakness of their management structures.
- Although there are many programmes through the SFD, NILEX and other instruments, MSMEs are still facing a problem of access to finance
- The SFD is the only organization with a developmental mandate for financing MSMEs. But SMEs suffer from cumbersome and lengthy procedures and high interest rate (close to the normal bank rates) and personal guarantee requirements imposed by the SFD.

3.2 SWOT Analyses

This section presents the SWOT analyses from a demand side and supply side perspectives; the detail by instruments is provided in Appendix.

The Demand Side (SMEs)

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Supply chain to the large companies • Inexpensive labour • Important contribution in the Egyptian Economy • Growing government support 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Underutilization of capacity • Lack of awareness of the available financial instruments. • Lack of Access to Finance • Lack of Transparency • Lack of Financial knowledge • Lack of trained workers • Lack of planning • One man show management • Low innovation activity • Lack of collateral • Insecurity for property right • Insufficient documents for accessing formal finance • Lack of long term strategic concentration
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • With proper access to finance MSMEs can change the development path of the economy • Expansion to export markets • Full potential productivity • With marketing Assistance, they have better chance to grow 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Increase in the price of inputs (raw material and finance rate) and lack of financial assistance • Difficulties to access foreign currency • Competition from large companies with SMEs • Bureaucracy barriers to obtain the proper documents to establish new activities • Lack of experience

The Supply Side (Financial Instruments)

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Unified definition of SMEs (only for the banking sector) • Variety of tools • Large loans with flexible tenure (medium or long terms) • Government support to financial tools (Banking reform and NILEX) 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Data base • Prefer to finance large companies and multinationals (Because of their higher profitability, transparency in financial statements, less risk, more stability and stronger organizational structure) • Expensive
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Special SME units created within most banks • New EGP200bn (EUR 23.4bn) lending incentives from the CBE 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Lack of qualified management in SMEs repels financiers • Lack of collaterals, guarantees and proper financial statements

3.3 Key issues identified

One of the main obstacles facing MSMEs as regards Access to Finance is the very limited number of financial instruments. Currently, focus is on the banks whereas there are other innovative and non-bank financial instruments that could be established.

The above SWOT analyses can be summarized as follows:

(1) **Key issues identified: By the 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.

The 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.

3.4 IDENTIFIED GOOD PRACTICES

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

1- CBE SME definition

The need for a standard definition for small, medium and micro enterprises became necessary in order to provide accurate data for this sector and help with access to finance. Accordingly, on December 2015, the board of directors of the Central Bank of Egypt defined small, medium and micro enterprises as follows:

Companies and enterprises	Existing Firms		New Firms (Under Construction)	
	Business size (Sales and yearly revenues)	Size of employment	Paid Capital**	Size of employment *
Micro enterprises	< EGP 1 million (EUR 117,000)	< 10 individuals	< EGP 50,000 (EUR 6,000)	< 10 individuals
Very small enterprises	Ranges from EGP 1 million to EGP 10 million (EUR 117,000 - EUR1.2 million)	< 200 individuals	Ranges from EGP 50,000 to EGP 5 million (EUR 6,000 - EUR 590,000) for industrial enterprises and EGP 3 million (EUR 351,000) for non-industrial ones	< 200 individuals
Small enterprises	Ranges from EGP 10 million to EGP 20 million (EUR 1.2 million - EUR2.34 million)		Ranges from EGP 5 million to EGP 10 million (EUR 590,000 - EUR 1.2 million) for industrial enterprises and from EGP 3 million to EGP 5 million (EUR 351,000 - EUR 590,000) for non-industrial ones	
Medium enterprises	Ranges from EGP 20 million to EGP 100 million (EUR 2.34 million - EUR12 million)		Undefined	

*The size of employment is just provided as guidance and not used to categorize the size of company or enterprise.

**The "paid capital" is used in the case of new enterprises and firms instead of using the business size. This applies for one year from the date of performing this activity in order to have all the business data available. Therefore, the classification is considered temporary. After that, the original definition based on the business size will be applied.

2- The Central Bank of Egypt SME Initiative

Recognizing the importance of the MSMEs to the Egyptian economy, on December 2015 the President of Egypt allocated EGP 200 billion (EUR 23.4 billion) to the Central Bank in order to support and facilitate the access to finance for this segment. This program is aimed at directing banking resources in a way that provides funding over 4 years to around 350 thousand MSMEs, this fostering the creation of approximately 4 million jobs.

This initiative comes within a set of decisions taken by the Central Bank aimed at creating a suitable environment for MSMEs to strengthen their opportunities in access to finance and overcome the obstacles they face. Banks are also directed towards increasing MSME loans up to not less than 20% of their total portfolio loans over the next 4 years.

All banks will be required to register the credit of each client / customer obtaining a finance or credit facility of EGP 30,000 (EUR 3,500) or above. Banks will be allowed to finance MSMEs without obtaining certified financial statements from the auditors during the first year. Banks are given a time-frame (until June 2016) to adjust their status according to the new regulations. Finally, banks will develop and upgrade the departments specialized in funding the companies, small and medium enterprises by setting up policies, procedures and internal regulations.

The Central Bank gives priority in funding important economic sectors, especially the industrial companies and those producing the components of intermediate and high value-added, in addition to the labour-intensive activities, giving special attention to companies with innovative ideas and projects aimed at export.

CBE requires that bank cap the interest rates at 5% annually; in exchange banks will be allowed to deduct MSMEs loans from their legal reserve requirements (non-remunerated). This will be applicable based on the new unified definition of the SMEs by the CBE.

All the above initiatives and programs are the result of the attention given by the CBE to the MSME sector since 2008 to encourage banks to finance small and medium companies, especially since this type of finance has a major role in developing the national economy, providing job opportunities for youths and reducing the unemployment rate, as mentioned above. Furthermore amendments were introduced to the existing supervisory institutions, including a new SME creditworthiness evaluation.

3- The Banking System Reforms in 2008

The Central Bank of Egypt has adopted a reform program in 2004 consisting of two phases that has saved the Egyptian banking sector from the global financial crises in 2009. The World Bank (2009) has mentioned that “the Egyptian financial sector is the most far reaching, substantive and comprehensive drive toward financial sector strengthening so far in Egypt- and indeed in any other country of the Middle East and North Africa region”.

The first phase consisted of three main pillars that led to well capitalized banks:

- Strengthening the legal, regulatory and supervisory framework.
- Consolidating the banking sector and increasing private participation within banking assets.
- Restructuring of financial, operational and institutional public-sector banks.

The second phase aimed at enhancing the efficiency and competitiveness of the Egyptian banking sector through enhancing access to finance services. The reforms increased the loans-deposits ratio and the average loans-GDP ratio substantially.

The drastic reforms taken by the Central Bank of Egypt (CBE) in 2008 led to new channel for financing MSMEs, where the banking sector was encouraged to finance MSMEs by

reducing the percentage of the reserve requirement by 10% for the MSMEs lender. Additional incentives are currently under consideration by the CBE.

4- The Non-Banking Sector

A new regulatory authority was established in 2009, the Egyptian Financial Supervisory Authority (EFSA) overseeing the insurance, capital market, mortgage finance and financial leasing sectors

5- The NILEX Stock Exchange for SMEs

NILEX is an important financing tool that helps the SMEs to raise capital. It also supports the activities of the private equity and venture capital fund looking for exits.

Last but not least it helps also in:

- Maximizing the company's market capitalization which helps getting loans from banks
- Determining a fair value for the company
- Improving the company's image among suppliers, customers, banks and other stakeholders
- Giving the company a good opportunity for growth, since companies listed on a small and medium enterprise markets worldwide have witnessed notable growth after being listed
- Attracting strategic domestic and foreign investors who seek long term investment opportunities or acquisition of promising companies.

6- Industrial Modernization Center (IMC)

IMC main activities aim to modernize the industry in Egypt by providing technical assistance for the companies and initiating new programs to improve the Access to Finance in Egypt.

The program played a key role in fostering the development of the private equity industry, developing loan guarantee tools and facilitating intermediation between banks and borrowers, including in the cases of turnarounds (NPL program).

RECOMMENDATIONS:

Regulatory:

- Reviewing the tax regime for MSMEs in a way that encourages them to declare their activities more transparently
- Revisiting and simplifying the legislation of establishing the venture capital, private equity, mezzanine funds in order to facilitate their implementation locally not only offshore; this will help in fundraising
- Fostering reforms aiming to improve the business and investment climate (notably by improving the efficiency of one stop shops)

Supply Side:

- Establishing a mezzanine fund for the MSMEs, providing a combination of debt and equity with lower risk aversion and higher acceptance by MSMEs
- Creating a 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

Demand Side

- Financial capacity building and awareness programs for the MSMEs companies
- Increasing the number of non-banking financial instruments (Leasing companies for MSMEs, Mezzanine Funds, Venture Capital Funds)
- Creating an efficient one stop shop agency for MSMEs to facilitate the process.

CONCLUSION

Micro, Small and Medium sized Enterprises (MSMEs) have usually been perceived as a dynamic force for sustained economic growth and job creation in developing Egypt. Access to finance for MSMEs is extremely important in promoting entrepreneurship and innovation as well as improving the state of the national.

The survey shows that a vast majority of MSMEs never had recourse to formal financial institutions due to lack of knowledge about how to deal with banks and the banks' complicated procedures. A minority of this segment did use bank loans but encountered great difficulties in dealing with the system, repaying the loan, and dealing with high interest rates.

Accordingly, it is recommended to establish a main Access to Finance hub for MSMEs that would provide financial advisory services and would be backed by a mezzanine fund. This hub should be coordinated with existing initiatives and could ultimately result in the creation of a new agency.

This main hub would provide technical assistance, capacity building, mentorship, incubation services, and would contribute to a greater efficiency of one stop shops to facilitate the business registration process; through its mezzanine fund, the hub would also be an apex for banks and financial institutions serving SMEs.

Steps envisioned for this initiative would be:

- Partnership with an investment house to establish a mezzanine Fund
- Design of a coordination mechanism between the following entities:
- General Authority for Investment (GAFI) to facilitate the doing business
- Industrial Development Authority (IDA) to facilitate the required licenses
- Industrial modernization centre (IMC) to provide the technical assistance
- Egyptian banking institute to provide the capacity building
- Best Incubators in Egypt to provide mentorship and business support services.

This could play a key role in facilitating access to finance for SMEs in an integrated manner and help developing a healthy business environment through a complete business cycle. This would positively affect the Egyptian economy by increasing GDP, investments, productivity, exports and by fostering employment.

ANNEX I

List of Participants in the Focus Group

Name	Organization	Position	Phone #	Email Add.
Minoush Abd El Meguid	Union Capital – Private Equity inv. House	Managing Director	002-0122316977	m.ameguid@unioncapitalepe.com
Magdy El Dakroury	Societe Arab International de Banque - SAIB	General Manager- corporate finance	002-01001444055	magdy.dakrouri@saib.com.eg
Alaa Gouda	Export Credit Guarantee co. of Egypt (ECGE)	General Manager	002-01223408952	Alaa.gouda@ecgegypt.net
Heba El Serafy	Egyptian stock exchange	Deputy head disclosure division (main market and Nilex)	002-01009009777	Heba.serafi@egx.com.eg
Hesham El Safty	National bank of Egypt	Head Financial Institutions & country risk management	002-01097779720	Hesam.elsafty@nbe.com.eg
Walid Hossam Ismail	National bank of Egypt	Deputy General Manager SMEs Credit Risk	002-01223111842	Walid_hossam@nbe.com.eg
Nevine Badr El Din	Social Fund For Development	Finance Sector Director & Deputy Director Micro Finance	002-01001715221	nbadr@sfdegypt.org
Omar Askar	Bedaya private Equity - GAFI	General Manager	002-0227924281/2/3	oascar@cf-holding.com
Tarek Fahmy	Al Tawfeek leasing Co. ATLeas	CEO & Managing Director	002-01001006976	tfahmy@at-lease.com
Waleed Azzam	Alu systems	Chairman	002-01004394444	azzam@ags-aluminum.com
Ahmad Galal	Taskty	CEO and founder	002-0233312727	ahmed@taskty.com
Ahmed Alaa Abdelshafy	Cryptyd	CEO and founder	002-0 1095322984	a.alaa@cryptydgames.com
Mai Medhat	Eventtus	CEO and founder	002-0 1000661382	mai@eventtus.com
Ahmed El Malkey	Innvoke (Iqraaly)	Operation Manager	002-0 1225108051	elmalkey@iqraaly.com

Annex 2 – SWOT analyses by instrument

Bank loans

Although this is considered a forward step, many banks now are having activities with SMEs, results did not come as expected, SMEs portfolios are still weak (high cost, high risk, less profitability).

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Considered the financial tool for financing working capital • Secured • Well known among all enterprises • Do not take any ownership position in business • Good geographical coverage 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Long process • Too many documents • Too many collaterals • Same interest rates of the corporate level (a bit high) • Limited risk appetite - Profitable organization (lack of development aspect)
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Opportunities of expansion in lending SMEs • Working on getting special funds with a special interest rate for SMEs 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Credit risks exposure • Lack of Collaterals • Lack of Financial awareness • Lack of transparency of the financial records • One man show management

Islamic Finance

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • It suits the Islamic culture • Secured • Do not take any ownership position in business 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Long process • Too many documents • Too many collaterals • Expensive as the interest rate of the normal banking rate • Limited risk appetite • Profitable organization (lack of development aspect)
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Opportunities of expansion in lending SMEs 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Credit risks exposure • Difficulty of assets disposal in case of default • Lack of transparency of the financial records • One man show management

Equipment Term Loans (Leasing)

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • No/minimal collateral (only the asset itself) • Control of ownership • Income tax savings • Cash flow friendly • Less time consuming • Fixed medium term funding • Document simplicity 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • High interest rate • Limited focus on SMEs • Limited to the fixed assets needed • Cannot be used for financing the working capital
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • With a larger number of companies, leasing can have a better focus on SMEs • Working on getting special funds with a special interest rate for SMEs 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • SMEs may prefer other instruments because of high interest rates • Lack of awareness from SMEs on this tool • Difficulty of assets disposal in case of default

Loan Guarantees and Risk-Sharing Facilities

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Encouraging the banking sector to lend to SMEs. • Time saving • Accelerating the financing process 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Too expensive (It adds 1 to 2% to the interest rate, which is very high)
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Large opportunity for new companies because only one company working on this tool 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • High cost discourages SMEs • It is a superficial market and it prefers to work with corporate level because it's more profitable and less risk

Equity and Venture Capital

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • It suits the Egyptian culture. • Easier process than Banks • Risk appetite • Funds raised can be used to finance all requirements • Restructuring. • Provide management and strategic support • Cash flow friendly 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Superficial market • Lack of awareness • Lack of data (I-score) • Fundraising • Most of the investments houses prefer to take majority stakes to have management control
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<ul style="list-style-type: none"> • Best tool for expansions 	
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • There is more opportunities for equity, mezzanine and venture capital because the market is very superficial • High IRR expectations • Edge over other financial institution due to the reform they add to the firms the less collaterals required 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Regulatory obstacles facing the establishment of the new funds specially the local funds • High Weighted Average Cost of Capital

Micro-Finance

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • It covers a huge segment in the market • They fund the informal sector 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Less collateral • High risk • Poor regulatory framework. • Limited number of institution targeting the micro level. • Poor infrastructure of the micro firms
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Technical assistance programs can help • Increasing Government support 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Lack of guidance • Superficial market

Factoring

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • No/minimal) collateral • Less risk • Less time consuming • Cash flow friendly • Financing specific transaction • Providing liquidity 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Cannot be used to finance other items. • Awareness • Expensive • Shallow market
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Opportunities of expansion • Procedures are easier over time 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • High risk due to the political stability