Enhancement of the Business Environment in the Southern Mediterranean

Policies to Facilitate Access to Finance for MSMEs
Consolidated Report

Brussels, August 2016

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GIZ IS and Eurecna
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FOREWORD

Lifting barriers to start-up and SME financing is a challenge of strategic nature.

In most developing economies, households and businesses face difficulties to access formal, efficient and affordable financing as well as financial services. "Unbanked" individuals and Micro, Small and Medium Enterprises (MSMEs) are generally the rule and not an exception. Even those who have access to formal financial services face high transaction costs for payment services, cannot optimise the use of cash-flows, are constrained in terms of asset accumulation, and have little opportunity to leverage their own funds with third party financing in order to expand their activities.

Not only this perpetuates and widens the divide between the most vulnerable groups and those already benefiting from globally integrated services, mainly large corporates, but it prevents the establishment of start-ups in sufficient number. This is a critical issue; the last 20 years demonstrated that, since early stage companies are more agile than large companies, they exert a powerful transformative effect on economies through innovation, research and development, knowledge integration and locally produced value added. In an environment where start-ups can more easily access resources (notably financial), they become a factor of competitiveness, generate decent jobs and contribute spurring inclusive growth notably for the youth and in remote areas or regions. Reversely, hindering the creation of companies by under financing start-ups undermines the process of 'creative-destruction' that is necessary to preserve competitiveness: barring the creation of start-ups thus hinders the transformation of the whole economy.

But difficulties in accessing finance are not only a concern for start-ups. Established businesses face also difficulties in having their growth, innovation process, business development, technological investments financed. With few exceptions, access to finance is always mentioned by SMEs among the three key impediments hindering growth. Taking into account the fact that - in most economies - SMEs represent no less than 85% of the number of enterprises and account for at least 60% of employment of the merchant economy, limiting growth of SMEs translates into neglecting a huge reservoir of potential jobs.

Job creation being one of the most formidable challenges of the beginning of this century, the question of whether access to finance can be turned from an obstacle into an employment driver is valid. In that perspective; the G20 acknowledged that millions of MSMEs face a serious lack of access to finance and universal access to financial services should be enhanced. In the same vein, the Agenda for Change of the EU is placing a great emphasis on the necessity to improve the situation and commits to further promote SMEs notably by facilitating access to financial services through an increase of the EU aid leveraging effect on other sources of finance for development, in particular private investment. Under the economic development pillar, these interventions, aimed at facilitating SME financing, are

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1 As it is the case in developed economies where giant companies, created less than a decade ago by young entrepreneurs, fostered employment creation.
2 As it fosters a healthy renewal of the enterprise fabric.
complemented by supports provided in the fields of macroeconomic stability, institutional reforms, financial sector efficiency, legal and regulatory environment streamlining, non-financial business support services, academics-enterprises linkages, trade and access to markets, all topics that are influencing the demand and provision of financing and that are tightly interwoven.

Complexity is daunting: translating identified needs and interventions into a coherent programmatic framework - be it at the regional or national level - requires a common framework allowing genuinely grasping and comparing institutions, countries and regions that are different by essence. From a technical perspective, the Basel framework is addressing this issue at international level for banks and regulated financial institutions, while the IMF and rating agencies have set standard principles to appraise the sovereign or large corporate strengths, and various indices help grasping the quality of regulatory frameworks, educational systems or infrastructure. But access to finance is also conditioned by a set of factors that are more fluid: the trust between the financial and entrepreneurs’ communities, the perception of the visibility by firms, the crowding out of productive investments by public expenses financing or non-productive activities, the set of practices that sometimes contradict the formal rule of law.

The debate is complex and requires - to be fruitful - a huge effort in terms of knowledge, coordination, exchange of good practices and dialogue. The assessment of SME policies in the Southern Mediterranean countries carried out in 2013 by the European Commission, the Organisation for Economic Co-operation and Development (OECD), the European Training Foundation (ETF) and the European Investment Bank (EIB), based on the Small Business Act for Europe (SBA), is providing a cornerstone based on which such policy dialogue can be fostered, notably in the field of access to finance for SMEs. Building on these foundations has been the challenge of the EU project “Enhancement of the Business Environment in the Southern Mediterranean” (EBSEM), and that is intending to contribute to the improvement of the business enabling environment for MSMEs through the production of knowledge, raising awareness and strengthening the policy dialogue around MSME development issues, including access to finance.

The present mapping is a concrete contribution to this dialogue. Based on an exhaustive listing of existing public financial instruments and the organisation of focus groups at national level (gathering financial sector representatives, entrepreneurs, public and SME support service bodies), EBSEM is providing a snapshot of access to finance in the South Mediterranean. More importantly, the present EBSEM project allows grasping the relative position of each country in relation to public policies regarding the supply of, and demand for, finance, as well as the regulatory and intermediation issues. It also helps identifying successful practices that may be prudently translated in other countries, and draws interesting conclusions as per the priorities to tackle, be it at national or regional level.
ACKNOWLEDGMENTS

This report has been prepared with European Union (EU) funding as part of the implementation of the activity on “Access to Finance for SMEs” developed in the framework of the Enhancement of the Business Environment in the Southern Mediterranean Project (hereafter called EBESM).

The activity and related report(s) were managed and coordinated by the EBESM Team Leader Marie-Jo Char and valuable comments and contributions were provided by Aljoscha Gütermann and Roxana Mocanu, from GIZ.

François-Louis Billon and Christophe Malherbe are the authors of this consolidated report.

The report is the result of the collective efforts of the National SBA coordinators, who are the main interlocutors of the project at national level, the Working Group on Access to Finance established in the framework of this activity, and a team of resident experts who carried out the study at country level.

The preparation of this Report included the analysis and consolidation of eight country reports conducted from October to December 2016 in the eight Southern Mediterranean countries (MED), namely, Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine and Tunisia. These country reports present the outcomes of a mapping exercise on existing public policies, mechanisms and instruments supporting MSMEs financial needs and were completed by focus groups gathering representatives of business associations and providers of finance that produced SWOT analyses for each type of instrument. All available instruments are presented in Annex 1 of this report.

Special thanks are due to:

The National SBA Coordinators: Abdellah Telailia (Ministry of Industry and Mine, Algeria); Amr Taha (Industrial Modernisation Center, Egypt); Nir Ben-Aharon (Ministry of Economy, Israel); Basheer Salaytah (Jordan Enterprise Development Corporation, Jordan); Manal Yassine (Ministry of Industry, Lebanon); Ali Berrada-Gouzi (National Agency for SME Development, Morocco); Manal Farhan Ibrahim/Shkoukani (Ministry of National Economy, Palestine); and Wajdi Neffati (Agency of Industrial Promotion and Innovation, Tunisia).

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Centralised experts: François-Louis Billon and Christophe Malherbe

Special thanks are due as well to those who attended the focus group for the purpose of the preparation of the national and consolidated reports.
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## ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFI</td>
<td>Alliance for Financial Inclusion</td>
</tr>
<tr>
<td>ANDI</td>
<td>Agence Nationale de Développment et de l'Investissement</td>
</tr>
<tr>
<td>BDS</td>
<td>Business Development Service(s)</td>
</tr>
<tr>
<td>EBESM</td>
<td>“Enhancement of the Business Environment in the Southern Mediterranean” project</td>
</tr>
<tr>
<td>BFPME</td>
<td>Banque de Financement des Petites et Moyennes Entreprises</td>
</tr>
<tr>
<td>EBI</td>
<td>Egyptian Banking Institute</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ETF</td>
<td>European Training Foundation</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>INFE</td>
<td>International Network on Financial Education</td>
</tr>
<tr>
<td>MED</td>
<td>Southern Mediterranean Countries</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East &amp; North Africa</td>
</tr>
<tr>
<td>MF</td>
<td>Micro-Finance</td>
</tr>
<tr>
<td>MFA</td>
<td>Micro-Finance Association(s)</td>
</tr>
<tr>
<td>MFI</td>
<td>Micro-Finance Institution(s)</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small and Medium Sized Enterprises</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PE</td>
<td>Private Equity</td>
</tr>
<tr>
<td>SBA</td>
<td>Small Business Act for Europe</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Sized Enterprises</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities and Threats</td>
</tr>
<tr>
<td>VC</td>
<td>Venture Capital</td>
</tr>
<tr>
<td>WEF</td>
<td>World Economic Forum</td>
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</table>
**EXECUTIVE SUMMARY**

The mapping exercise brings out that the disparities prevailing between the South MED countries is a stringent determinant for crafting policies that would aim at proposing a regional approach to SME financing. It, nevertheless, highlights some common issues that could be usefully dealt with, by the establishment of regional facilities providing that common frameworks of SME definition, reporting and impact assessment are agreed upon ex-ante.

Beyond technicalities, the mapping highlights the key role of fostering exchange of knowledge and successful experiences that can be a source of inspiration (as opposed to the spreading of ‘good practices’ can be received in a cold hearted way). In that regards, the EBSEM brought a specific momentum that is complementary to on-going initiatives.

Focus groups demonstrated that empiric judgement, exchanges between practitioners, and – above all – the sense that we can grab global opportunities together all over the world to foster local development, can be a powerful driver of change, particularly in the field of access to finance for SMEs that is too often seen as a patch to tackle employment, poverty alleviation or regional development.

It remains that perspectives on access to finance are not converging and are a not a consensual matter (to say the least). The demand side (entrepreneurs) claims that the financial sector is not doing its job (e.g., mistrust resulting in too much collateral requirements) and don’t ‘understand’ SMEs, while the supply side (financial institutions) is claiming that not enough good dossiers are submitted and that entrepreneurs are not knowledgeable; lack of transparency and purpose - lack of capitalisation.

In a context of rebound of activity and over liquidity (after the absorption of the 2007 financial crisis shock), both demand and supply sides agree on the fact that the institutional and regulatory framework is not conducive and call for reform. This position needs, however, to be considered cautiously as market imperfections generate rents that are – understandably – defended by both the supply and demand side. The situation is complex and call for bold action.

Among these actions, the mapping and focus groups organised by EBSEM came out with clear areas for actions that can guide future donors’ interventions:

- **Increasing the availability of long term finance and risk capital**
  
  Despite a relatively high level of liquidity in the financial sector in the region, resources are mainly constituted of short term deposits meant to be invested in fully secured treasury instruments. Public support can be instrumental for exerting a transformational effect on maturities and risk profile of the money channelled through banks and other financial institutions towards the productive sector. This may take several forms: provision of term finance with tenure of 10 to 12 years; provision of guarantees on the extended maturity (ex. from 7 to 12 years); provision of risk capital, targeting notably the traditional sector, or first loss guarantees to offset risk.

- **Building up the capacities of the financial institutions to deal with MSMEs**
  
  This could be promoted by the provision of public support to the mainstreaming of ‘MSME financing’ into the banks’ and other FIs’ strategies, a dimension that has been, so far, overlooked. Once the strategic and programmatic frameworks are in place, support can be provided to the adoption of tools to facilitate credit analysis and risk management, notably at the level of the smallest FIs (e.g. MFIs). FIs should also be enticed to develop their knowledge base on what they consider priority economic sectors, notably by developing dialogue platforms between FIs and sector
representative organizations. The technical support should also be accompanied with the training of bank staff and management on the implementation of the strategy, the tools and sector knowledge.

- **Increasing competition between financial institutions by enlarging the offer of SME finance and disseminating information**

  In the MED region, SME financing remains confined to a little number of institutions by country, resulting in a supply-driven market with low competition intensity. Supporting the development of alternative financing channels (e.g. leasing, factoring, tier-two banks, post banks) and financial services (e-payment, e-banking, crowd-funding) will allow enlarging the offer and spurring competition. Supporting the dissemination of information on the financing and financial services available would also valuably contribute to a more balanced relationship between SMEs and the financial sectors.

- **Fostering financial literacy and business development services**

  Despite recent initiatives, financial literacy is still rather low notably at the lower level of the entrepreneurial pyramid, which impedes the dialogue and efficient interfacing between the financial sector and project sponsors. The financial literacy programmes could be valuably supported alongside the provision of business development services (BDS). These BDSs could be financial or non-financial and aimed at strengthening the quality of the demand in an integrated way. Ideally, the BDS should be highly coordinated and delivered through a widespread network of focal points, among which the one-stop-shops could play a pivotal role.

- **Increasing the outreach of guarantees and risk sharing instruments by improving the related regulatory framework and fostering innovation**

  Guarantee mechanisms could play a greater role in fostering economic development, notably for the most vulnerable targets, if their creditworthiness was increased (ex. by being backed by the Central Banks), if the payment of claims was accelerated (ex. with subrogation of the claim to the guarantee company), and if innovation was fostered (ex. development of mutual guarantee funds). The creation of a platform allowing exchange of experience in that respect would be invaluable.

- **Fostering venture capital and private equity financing by strengthening the ecosystem**

  Venture capital and private equity are constrained by the insufficient production of good projects, the focus on high-tech ventures and the lack of exits. Public support could participate in improving the equity ecosystem by aligning the legal environment with international good practices, supporting the emergence of funds that address the various enterprise needs throughout their development (series A, B, C…), and providing targeted tax incentives to individuals investing funds. Exits could also be facilitated by spurring cross-borders investments (e.g. through the ANIMA network) and linking the national venture capital communities to other VC magnets like European clusters, techno poles or the Silicon Valley. The ecosystem would greatly benefit from an awareness campaign on the practices and requirements of equity investors in view of facilitating the dialogue between funds and fund managers and the provision of support to new management teams.
• Open new growth areas, including strengthening of support for innovation funding

We see every day the arrival of new companies or "start-up" driven by innovative projects. It would be wrong to believe that it is necessary to have a strong capability in R&D to generate innovative activities or in business creation or development of existing businesses. This is usually to provide a new combination of components already available and associated with new business models, new organizations, new business approaches, etc. The Mediterranean region, like Israel and Morocco is able to compete with any global horizon. The financing arrangements are specific to area where the intangible costs are often prevailing. They also demand a very high reactivity of financial operators and constitute an attractive opportunity to deal flow for the venture capital and investment funds. The development of current businesses whose management is family is possible and should be encouraged, but it must also open new spaces, create jobs (especially vis-à-vis the graduates) and create wealth regardless of natural resources each country.

• Developing a harmonised and robust monitoring system

The lack of harmonised reporting stems from several reasons including confidentiality, commercial strategies and the fact that the available pool of financing evolves constantly. As this is an impediment to policy making and financial planning, a common recommendation from focus groups was to have the MED countries adopting a harmonised framework for reporting that would be regularly updated (at least once a year).

These recommendations will be discussed at national level in order to identify priorities and formulate ‘quick-win’ action plans that the EBSEM project can support in view of spurring larger initiatives to be supported through EU PSD instruments.
1. CONTEXT AND MAPPING STUDIES

This synthesis report, produced in the framework of the “Enhancement of the Business Environment in the Southern Mediterranean” project⁵ (EBESM), presents the consolidated results of mapping studies on the existing public policies, mechanisms and instruments aimed at facilitating access to finance for Micro, Small and Medium Enterprises (MSMEs) carried out from October to December 2016 in the eight Southern Mediterranean countries (MED), namely, Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine and Tunisia. These studies gave rise to the production of eight country reports that present the outcomes of an in-depth desk research performed to identify and select available financial instruments and mechanisms for MSMEs. All instruments are presented in the form of fact sheets providing detailed information and characteristics including links and contact details, for those MSMEs seeking information on the availability of financial instruments serving their development needs.

The factsheets fall into six (6) categories, namely, Bank loans and facilities; Guarantee funds and risk-sharing mechanisms; Private equity and venture capital; Leasing, factoring and Islamic finance; Microfinance and innovative finance; and Others (e.g. grant schemes, honour loans).

The mapping studies were undertaken in view of documenting the Principle 6 of the Small Business Act for Europe (SBA) “Facilitate SMEs Access to finance”. This Principle aims at contributing to deepen financial markets through sound policies, laws and regulatory frameworks and to widen the range of products and services (e.g. leasing, factoring, risk capital) and the development of diverse financial instruments (e.g. credit lines, bonds, equities) likely to facilitate bridging the gap between demand and supply for SME financing.

<table>
<thead>
<tr>
<th>The SME Policy Index – Implementation of the Small Business Act for Europe in the MED Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase the breadth and depth of the financial sector and to foster financial inclusion for MSMEs, the Dimension 6 of the SME Policy Index⁶ “Access to finance for SMEs” places a great emphasis on policy reforms, public sponsored instruments, as well as the engagement of the private sector (e.g. financial institutions, lenders or investors), The evaluation of the Dimension 6 of the Index aims at providing benchmarks for facilitating the elaboration of policies increasing access to a range of quality, reliable, and affordable financial services, paying particular attention to reaching the traditionally underserved segments (e.g. youth and women) by evaluating three main pillars, namely, (i) Sources of external finance for SMEs ;(ii) Legal and regulatory framework for external financing; and (iii) Financial literacy.</td>
</tr>
</tbody>
</table>

This mapping exercise was completed by focus groups meetings gathering enterprises, representatives of business associations and providers of finance that produced SWOT analyses for each type of instrument (mainly bank loans, guarantees and risk capital) and

⁵ EBESM is a project funded by the European Union and implemented by GIZ. For more information see: www.ebesm.eu

⁶ The SME Policy Index is a tool to support policy makers in tapping the potential of SMEs as drivers for job creation and economic growth. It measures the performance of participating economies and undertakes comparative evaluation of SME policies (e.g. access to finance, business development services, administrative simplification, etc.). The indicators are broken down into sub-dimensions measured on a scale of 1 to 5, where 5 broadly corresponds to good practice.
issued recommendations on how the situation could be improved from the demand, supply and regulatory standpoints.

The mapping and the focus group's outcomes allowed the SBA Coordinators and the Access to Finance Advisors to elaborate policy recommendations for facilitating access to finance for MSMEs over the short, medium and long term.

These outputs have been consolidated in this synthesis report to draw policy recommendations that could apply at the regional, sub-regional or national levels.

The report is structured in six parts: Definition of SMEs (Section 2), Overview of results (Section 3), Financial Instruments (Section 4), Key issues (Section 5) and Recommendations (Section 6), and Conclusions (Section 7).

2. **DEFINITION OF SMES**

Micro, small and medium-sized enterprises (MSME) are businesses whose personnel numbers, turnover and/or total assets or liabilities range within certain limits.

The definition of SMEs became a burning issue soon after the Declaration of Barcelona in 1995. By acknowledging the role of small firms in economic development in the region, it immediately raised the question on ‘how to translate global strategic objectives into policies, programmes and instruments’, and called for the adoption of a definition of the SME target group in a consistent way (if not regionally at least by country).

But factoring-in the relative concepts of ‘small’ and ‘medium’, taking into consideration the local prevailing environments proved to be delicate. The definition of a company’s size may indeed vary depending on the perspective: banks are inclined to define SMEs based on the amounts borrowed while policy makers would favour number of employees; in some sectors (notably private equity, trading or real estate), very small firms can manage huge funds or flows of funds; poor farmers can own assets in the form of priceless land and some service companies can employ a huge number of employees (ex. call centres) although they are still to be considered small by international standards.

The EU definition was a useful benchmark. In the EU, the definition of MSMEs is based on three criteria: employment, turnover and balance sheet total (see below):

<table>
<thead>
<tr>
<th>Company category</th>
<th>Employees</th>
<th>Turnover</th>
<th>Balance Sheet Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-sized</td>
<td>&lt; 250</td>
<td>≤ €50 m</td>
<td>≤ €43 m</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ €10 m</td>
<td>≤ €10 m</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ €2 m</td>
<td>≤ €2 m</td>
</tr>
</tbody>
</table>

These definitions were established in the spring of 1996 and were implemented by the end of 1998 by the Member States. If these definitions are to be used by financial institutions at the

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7 The details are provided in separate national reports. Recommendations are based on national reports that may face some limitations as some data (e.g. interest rates, disbursement of existing lines, default rates) are considered sensitive by financial intermediaries that don’t communicate on them.

national level on a flexible way, they can help to develop coherent regional support policies at EU level.

But still, a homogenous or uniform definition for MSMEs does not exist in the MED countries. Furthermore, in some countries, such as Jordan or Tunisia, there is a variety of definitions for MSMEs. Egypt will use a very detailed definition, distinguishing between micro and small enterprises, between existing businesses and those being created.

### Table 2: Definition of MSMEs in MED countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Micro</th>
<th>Very Small</th>
<th>Small</th>
<th>Medium sized</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existing</td>
<td>New</td>
<td>Existing</td>
<td>New</td>
</tr>
<tr>
<td>ALGERIA</td>
<td>10</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>0,117</td>
<td>1,2</td>
<td>2,34</td>
<td>12</td>
</tr>
<tr>
<td>EGYPT</td>
<td>10</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>0,117</td>
<td>1,2</td>
<td>2,34</td>
<td>12</td>
</tr>
<tr>
<td>ISRAEL</td>
<td>10</td>
<td>50</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>0,313</td>
<td>3,135</td>
<td>15,7</td>
<td></td>
</tr>
<tr>
<td>JORDAN</td>
<td>10</td>
<td>50</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>0,313</td>
<td>3,135</td>
<td>15,7</td>
<td></td>
</tr>
<tr>
<td>MOROCCO</td>
<td>10</td>
<td>50</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>0,313</td>
<td>3,135</td>
<td>15,7</td>
<td></td>
</tr>
<tr>
<td>PALESTINE</td>
<td>10</td>
<td>50</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>0,313</td>
<td>3,135</td>
<td>15,7</td>
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<td>TUNISIA</td>
<td>10</td>
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<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>0,313</td>
<td>3,135</td>
<td>15,7</td>
<td></td>
</tr>
</tbody>
</table>

Source: authors’ compilation.

It is noticeable that the headcount or number of employees is the most common used criteria in the region, either officially or unofficially. But differences in the thresholds are striking, as they range from 9 in Palestine to 500 in Algeria (200 in Egypt).

The turnover threshold, used to define whether this is a large business, when explicitly mentioned, ranges between EUR 0.9 million to EUR 24.3 million.

Although cumbersome to shape a consistent regional policy, the definition of MSMEs is logically linked to the economic and historical context of each country and does not appear to represent discriminating criteria for granting funds to small businesses.

It remains that working on the convergence of a definition of MSMEs would provide two significant advantages. On one hand, it would allow a statistical monitoring of these different categories of enterprises and the establishment of a Regional Observatory of MSMEs in the South MED, while on the other hand, it would allow using a unified definition for granting regionally-tailored financial aid and facilitating the access to finance by enlarging the pool of underlying financial assets, resulting in better risk diversification.

To date, the lack of uniform definitions still hampers comparisons between countries and complicates the formulation of regional policies and instruments that cater to several countries. This is particularly true for instruments that require a critical mass that few southern Mediterranean countries are able to provide (such as funds of funds, reinsurance tools, funding for cross-border transactions).
3. OVERVIEW OF RESULTS

The mapping identified 98 public-financed or sponsored programmes that have been classified by type of financial needs depending on the development stage of the enterprises. As some programmes address several development stages, 291 public-sponsored instruments have been highlighted (231 without micro-finance) serving the seed, start-up, expansion, restructuring or transmission stages. If the regional average is 36, the number of instruments per country is contrasted; Morocco, Lebanon and Tunisia have the densest portfolio (around 50), Israel, Jordan and Palestine are in the middle of the ranking (around 30 instruments), while Algeria and Egypt are less equipped (11 and 20 respectively).

![Figure 1: Distribution of instruments by country](image)

The distribution of instruments by enterprise development stage is quite similar by country, with a particular focus on expansion / development that on average represents 44% of the total number of instruments (excluding MF). Interestingly, the second development stage targeted by public-sponsored schemes consists of start-ups (27%); this is something rather new that emerged in the mid-2000s when policy makers realized that supporting entrepreneurship and start-ups was key to densify the enterprise network, a prerequisite in a region where the existing enterprise fabric is not expected to be in a position to provide the 22 million job opportunities that will be required within the upcoming 20 years.9

To a lesser extent, innovation-related financial instruments are picking-up. Almost non-existent 10 years ago, they now represent 16% of the total number of instruments, while seed and transmission/restructuring facilities remain underdeveloped.

Country wise, three groups can be differentiated by their expansion development stage: Morocco and Tunisia come up as the champions with more than 20 instruments, while Egypt, Israel and Lebanon count between 10 and 15 instruments, Algeria, Jordan and Palestine counting 4 to 5 facilities.

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9 Disponibilité de main-d’oeuvre, chômage et création d’emplois dans le Maghreb’ - Prepared par Paul Dyer, World Bank for the Maghreb Round Table, May 2012.
As regards **start-ups**, Lebanon is clearly ahead with 17 instruments as a result of a 15-year pro-start-up policy supported, notably, by the Banque du Liban and the European Union through guarantees and incubators. As concerns **innovation**, Lebanon is again topping the regional group with 15 facilities. Tunisia is also well endowed with innovation support (8), while Algeria and Egypt don’t count any window specifically tailored to support this development stage (other countries counting 3/4 instruments each). In terms of **seed-finance**, Lebanon and Palestine are the best fitted with facilities (6/4), while Algeria, Egypt and Morocco aren’t equipped with any (others have one to three). Last, **transmission and restructuring** are addressed by few instruments (inexistent in Algeria, Jordan and Lebanon), which greatly translates the regulatory difficulties that impede the development of such instruments (creditors right, bankruptcy laws).

**Figure 2: Number of instruments by country and development stage**

One must acknowledge that the distribution of instruments by stage of development doesn’t differ much when the micro-finance instruments are included, except for start-up in Jordan that is well served by micro-finance institutions (5 instruments out of 8).
4. **FINANCIAL INSTRUMENTS**

4.1 **LOANS**

**Number and volume of available loan schemes**

The country reports record together 42 loan schemes taking the form of soft loans or loan-related incentives funded from national budgets, or by development partners benefiting from sovereign guarantees. The majority of these facilities are channelled through commercial or development banks.

**Figure 3: Number of loan instruments by country and development stage**

Source: country factsheets.

The total volume of available loan schemes is difficult to appreciate precisely as country and financial institutions mainly report past engagements rather than amounts of financing left available. Considering the underreporting, the total commitments over the last three years can be estimated between EUR1.8bn and EUR2.3bn (EUR1.5bn reported). Assuming a 5-year portfolio turnover, it can be estimated that the financing that will be made available for SMEs in the region through loan incentives will be about EUR2.8-3.2bn for the next 5 years.

**Policy Patterns**

In terms of policy pattern, two subgroups of countries can be defined: some countries rely on quantitative easing for SMEs, i.e. strengthening the supply by the provision of additional sizeable financings in the form of public soft lending / subsidies (Morocco, Tunisia, Egypt, Israel and Lebanon) and those that rely more on catalytic instruments triggering a higher transformation ratios at the banks’ level (like risk mitigation instruments or venture capital private equity that increase creditworthiness). Morocco could be at the fringe of both groups as it much more relies on project subsidies attached to financing (9 instruments exceeding EUR240m), rather than loan incentives (4 instruments totalling a reported EUR22m).

Lebanon illustrates how interest subsidisation can allow insulating the SMEs from macro-economic imbalances and various upheavals that may push interest rates up. The interest
Subsidies represented those last 3 years 89% of the public loan support packages and are supporting SME investment for decades as part of the Central bank policy. It is expected that Egypt will follow the same track as the country adopted in December 2015 a EUR22bn 4-year SME lending package at 5% in a context of high Treasury Bill (T-bill) interest rates (13%) crowding out SMEs.

**Sectoral distribution**

Out of the 42 schemes reported, 40% are sector neutral, 20% are concentrating on innovation, 20% on employment creation, the rest being shared between energy efficiency, regional development and agriculture. The average loan size is EUR250k, with maximum loan size ranging from EUR480k to EUR12.5m (Lebanon). The tenure is 6/7 years for Algeria / Israel, 12/14 for Morocco / Lebanon and even 25 years for land acquisitions in Tunisia.

### 4.2 Guarantees

The region counts 16 guarantee companies deploying 46 guarantee windows for loans, credits or equity extended by financial intermediaries to MSMEs. The total equity or cash collateral backing the guarantees issued is reported to total EUR1.2bn, for an outstanding guarantee portfolio estimated to total EUR4.2bn. Traditionally, the multipliers (portfolio / cash collateral) have been low in the region which translates into default rates that are particularly low (between 2% to 6%, i.e. below the defaults recorded by banks on their SME portfolio).

The guarantee ecosystem is particularly developed in Morocco (16 windows managed by the Caisse Centrale de Garantie) and in Lebanon where Kafalat has developed 6 complementary windows that address each stage of enterprise development. In Palestine, development partners have massively endowed three funds with grant money as a means to compensate the high level of risks perceived by the financial sector.

Guarantees are typically covering 60% to 70% of the loans; the coverage may go up to 90% in the case of vulnerable target groups, with a maximum size of the underlying loan ranging from EUR450k (Egypt, Israel) to 3/4 million Euros in the case of Jordan and Palestine. The maximum tenure of the loan guaranteed ranges from 7 to 12 years, i.e. significantly longer that the traditional bank loans, this translating the will to extend maturities. The costs of the guarantee vary from 0.5% (Algeria) to 2%, which is considered standard by financial institutions, but too high by borrowers who carry the full costs.

![Figure 4: Number of guarantee instruments by country and development stage](source: country factsheets)
With the exception of Morocco and Lebanon, the guarantee ecosystem in the region remains under developed and underutilised as an economic development tools. This stems from the fact that the signature of the institutions is not always regarded as creditworthy by the banks and that the procedures for settling the claims are cumbersome. A more aggressive policy in terms of exposure coupled with the obligation for the bank to reduce the collateral requirements pro rata the guarantees provided could exert a booster effect on the multipliers, hence on the financing extended.

4.3 VENTURE CAPITAL – INVESTMENT

The gross distribution of the number of investment instruments and venture capital across countries shows their importance for Lebanon and Tunisia.

This general view, however, must be amended by a detailed examination of these instruments. Indeed, some instruments are the combination of several tools. For instance, l’Agence Nationale de Développement et de l’Investissement (ANDI) in Algeria has 48 investment funds for its Wilayas\(^{10}\) managed by 3 financial operators under agreement with the Government.

Similarly, this allocation should be considered bearing in mind the fact that these funds are initiated or supported by the government. The low number of public funds may as well be related to the abundance of private initiatives, such as in Israel.

Regarding the ranges of intervention, the data is not complete. Some funds indicate amounts engaged, but most often only the total amount is expressed. For example, Morocco indicates that range only for one instrument out of the seven presented.

Nevertheless, from the available data, we can estimate the maximum amounts of investments by country (€ million).

\(^{10}\) According to the Algerian constitution, a Wilaya is a territorial collectivity enjoying economic and diplomatic freedom. Algeria is divided into 48 Wilayas.
With respect to the specialisation of the funds: Innovation usually tops on specialisation, a score to which other funds specialising in ICT, energy and the environment (18 funds) must be added. General (mid-cap) and technology funds (excluding innovation) are the second group with 14 funds. It is worth noting here that there is only one fund that is specialised in exporting companies, in Israel.

This is in line with the results obtained by the Med Funds 2011 study which suggested that until 2008 and outside Israel, funds targeting the activities in early / start-up stages represented a marginal number, as managers globally focused on more secured asset classes (development, infrastructure etc.)

Since 2011 though, several fund managers have shifted towards early stages for various reasons, including: the effect of Google, Facebook and the like on the perception of innovation; the presence of MED investors wishing to focus on their country and believing that talents were insufficiently backed; the development of specialised incubators and networks (business angels etc.) and an increased resilience of risk-aversion of international donors towards youth entrepreneurship.

On the other hand, this positive trend still faces obstacles that are spotted by professional investors: limited number of credible fund managers, a flow of potential investments that remains too small and high political risks that primarily affect young burgeons.

**Table 3: Disincentives for investment by region**

<table>
<thead>
<tr>
<th>Pays/ région</th>
<th>Nombre limité de gestionnaires de fonds</th>
<th>Investis-sements potentiels trop petits</th>
<th>Valori-sation trop élevée des entrées</th>
<th>Contexte difficile pour les sorties</th>
<th>Climat réglementaire fiscal défavorable</th>
<th>Risque politique élevé</th>
</tr>
</thead>
<tbody>
<tr>
<td>MENA</td>
<td>39%</td>
<td>33%</td>
<td>2%</td>
<td>14%</td>
<td>12%</td>
<td>32%</td>
</tr>
<tr>
<td>Europe</td>
<td>28%</td>
<td>23%</td>
<td>2%</td>
<td>14%</td>
<td>12%</td>
<td>28%</td>
</tr>
<tr>
<td>Chine</td>
<td>7%</td>
<td>4%</td>
<td>1%</td>
<td>14%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Inde</td>
<td>14%</td>
<td>0%</td>
<td>58%</td>
<td>14%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Asie (autres p. émergents)</td>
<td>38%</td>
<td>19%</td>
<td>4%</td>
<td>35%</td>
<td>12%</td>
<td>19%</td>
</tr>
<tr>
<td>Russie/CIS</td>
<td>25%</td>
<td>12%</td>
<td>2%</td>
<td>17%</td>
<td>30%</td>
<td>63%</td>
</tr>
<tr>
<td>Europe centrale et orientale</td>
<td>19%</td>
<td>16%</td>
<td>5%</td>
<td>27%</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>Brésil</td>
<td>11%</td>
<td>3%</td>
<td>31%</td>
<td>11%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Amérique latine (hors Brésil)</td>
<td>33%</td>
<td>19%</td>
<td>16%</td>
<td>10%</td>
<td>10%</td>
<td>23%</td>
</tr>
<tr>
<td>Afrique sub-sahélienne (y. c. Afrique du Sud)</td>
<td>47%</td>
<td>24%</td>
<td>2%</td>
<td>14%</td>
<td>12%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: Emerging Markets Private Equity Association (EMPEA) 2011
Enhancement of the Business Environment in the Southern Mediterranean

4.4 MICROFINANCE

The breakdown of microfinance instruments by country shows that Morocco, Tunisia, Jordan and Lebanon have the most important number of instruments. However, this quantitative aspect needs to be seen in relative terms. For instance, the «Sharakeh» instrument in Palestine is a cluster of nine old microfinance funds. As for Egypt, the number of instruments mentioned only reflects the agency that federates all microfinance institutions.

*Figure 7: Number of microfinance instruments by country*

Regarding the target groups of microfinance instruments, it appears that the general orientation goes to low-income and often excluded persons from the banking sector, which
represents the vast majority (30 of 44 instruments). Some instruments are focused on the agricultural and rural public (6), others on young or unemployed persons (3) or women (3).

The maximum amount of intervention differs widely across countries. Jordan has the broadest spectrum, ranging from EUR 266 to EUR133,000, with an average loan that is EUR 4,900 (excluding extreme amounts).

For some countries, such as Morocco and Lebanon, the interest rate can appear very high (greater or equal to 24%\textsuperscript{11}). This is due, in particular for Morocco, to the fact that these instruments are managed by Microfinance Associations (MFA) that have to bear the payroll of their employees (9%), the management fees (4.5%), the refinancing (6-7%) and the cost of risk (estimated at 3.5%). The recent legislative reform in Morocco allows microcredit associations to develop their activities into credit institutions, which is expected to diversify the sources of revenues and decrease the cost charged to the end-beneficiary. They already expanded their offer with insurance products and money transfer, while collection of savings is excluded from their activities.

Egypt concentrates the most important number of borrowers: 45% of Microfinance customers in the Arab region are Egyptians for a total volume of around 290 million Euros (2008). This, however, represents only 23% of the total microfinance volume in the region, a figure that is much lower than the total amounts in Morocco that has the most important portfolio in volume in the region. In Egypt, microfinance is highly concentrated on the bottom of the pyramid. The average amount is very low compared to the other countries of the regions\textsuperscript{12} and varies between 130 to 175 euros. Finally, it is worth noting that, globally, 60% of the borrowers are women, presumably a much higher percentage than the proportion of woman entrepreneurs borrowing from banks.

4.5 Other financial instruments and grants

The country reports on non-traditional financial instruments show that leasing and Islamic compliant finance has been – besides equity - the most privileged instruments supported by public policies outside of the banking sphere. The interventions of the 7 publicly sponsored leasing companies totalled EUR136m over 2012-2014, while 5 Islamic finance facilities extended EUR40m.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
\hline
Algeria & 2 & 124 & 1 & 3 & 3240 & 6 & 3364 \\
Egypt & 3 & 12,4 & 1 & 1 & 5 & 5 & 17,4 \\
Israel & & & 2 & 2 & NA \\
Jordan & & & 2 & 40 & 3 & 57 & 5 & 97 \\
Lebanon & & & 2 & 3 & NA & 2 \\
Morocco & 1 & & 4 & 18 & 5 & 18 \\
Palestine & & & 1 & 27 & 1 & 27 \\
Tunisia & 1 & 136,4 & 0 & 0 & 5 & 40 & 28 & 3398 & 40 & 3574,4 \\
\hline
Total & 7 & 136,4 & 0 & 0 & 5 & 40 & 28 & 3398 & 40 & 3574,4 \\
\hline
\end{tabular}
\caption{Other financial and TA instruments (in M Euros)}
\end{table}

These amounts remain, however, modest owing to the regulatory issues (except in Morocco where leasing is well developed since two decades), i.e. a lack of specific laws (e.g.

\textsuperscript{11} In 2011, the average rate in the MED region was 19,69\%, (MIX et Sanabel, 2011). This rate varies not only from country to country but also from year to year.

\textsuperscript{12} PK Mayamou (2012) \textit{La micro finance en Tunisie et en Egypte: un outil au service du développement local}. 
incorporation of venture capital funds in Jordan) or to their inappropriateness (e.g. convertible bonds in Algeria).

4.6 LEASING

Impediments to the development of the leasing is also due to:

1) The lack of moveable assets registry;

2) The perception of the financial institutions that the risk of having the asset smuggled is high and that the recourse will be inexistent (notably for those countries surrounded by fragile areas like Jordan, Lebanon, Tunisia and Algeria); and

3) The absence of structured second hand markets that would allow a leasing company to dispose foreclosed assets at a predictable market price.

As regards the development of Islamic finance, public institutions tend to leave it up to the private sector except to a lesser extent in Jordan where two schemes are supported by public authorities for a total amount of EUR40m.

As regards technical assistance, capacity building and grants, the region accounts (at least) 28 schemes with a total of EUR3.4bn. The lion’s share of this amount comes from Algeria where the national ANDPME modernization programme aimed at supporting 20,000 SMEs with a total amount of EUR3.2bn. Beside this sizeable programme, EUR400m of grants and technical assistance are earmarked for SMEs. Most of these programmes target: equipment modernisation, certification innovation, and export promotion. In Morocco, Palestine, Jordan and Israel, the support ecosystem for SMEs is structured in such a way as to be legible and efficient, while in Egypt and Tunisia, the governance and architecture of the SME support ecosystems are under discussion.

A common characteristic of these programmes, though, is the insufficient level of monitoring and evaluation of the results and the impact generated by the programme deployed. Reporting is barely made on the volume of activities deployed without any reference to development outcomes (such as employment creation, exports development, Foreign Direct Investment attraction, etc.). The insufficient supervision prevents the improvement of supports offered and their swift evolution to best meet the genuine needs of the targeted enterprises in due time and often results in piling up several initiatives by various Ministries that are often non-coordinated. One could mention, however, the case of Morocco that has created a Supervision and Monitoring Department in September 2015 as part of its reorganisation efforts, and the coordination of the SME support programmes by the Ministry of Economy in Israel.
5. **KEY ISSUES**

Based on the focus groups’ outcomes, the country reports identified the main issues and weaknesses by type of instrument category as summarised below.

### 5.1 LOANS AND COLLATERAL

The country reports brought out that the main key issues and challenges that deserve special attention as encountered in at least 5 countries pertain to: (i) the lack of collateral (or reversely the high demand of real securities); (ii) the asymmetry of information; and (iii) the costs and delays of transactions.

The lack of collateral is unanimously recognised as an impediment for the extension of bank’s loans, which calls for the following comments:

*Figure 8: Key impediments for the extension of loans*

The fact that the issue of collateral is ranked first in the long list of issues is the symptom of lending practices that are not sufficiently *project oriented* and that they are relying on real collateral in a context of relatively high risk aversion. This may be due to the absence of sector knowledge, the inexistence of tools to appraise and to manage the risk or the unavailability of sufficient reliable information and data to undertake a project-based risk analysis.

Reversely, this outcome reflects that risk-sharing mechanisms are mainly targeting medium and large sized companies. As highlighted by the World Bank\(^\text{13}\), the average size of guarantees in the Middle East and North Africa region (MENA) is large according to international standards, suggesting that guarantees are concentrated in a narrower SME segment and possibly larger SMEs and that small enterprises have difficult access to guarantees (as illustrated by the country reports). On average, the average value of the guarantees in MENA amounts up to 21 times per capita income, compared to the average of 4 in a benchmark groups consisting of 12 countries. Among MENA countries, the ratios in

\(^{13}\)Youssef Saadani, Zsofia Arvai And Roberto Rocha (2010) - *A Review Of Credit Guarantee Schemes In The Middle East And North Africa Region* – World Bank -
Morocco and Tunisia seem particularly high, with average guarantees reaching 60 and 33 times per capita income, respectively. The high average value of guarantees in these two countries probably reflects their broader eligibility criteria, and the focus on manufacturing. All in all, these numbers suggest that many guarantee schemes in MENA still concentrate on medium-sized firms, and do not reach yet the bulk of small firms.

The asymmetry of information is a complex issue that relates to enterprise governance and tax avoidance. The issue is particularly acute in countries where the informal economy is important and where the tax system is perceived unstable or potentially punitive by entrepreneurs (like in Tunisia and Egypt).

As regards to the costs and the delays of transactions, this is due to the absence of statistical tools to manage risks which impedes the management and pricing of risks. The absence of long series on the defaults by type of enterprises, sectors and regions allowing banks and credit guarantees of insurances to produce proper triangulations - and manage and price their risks - results in the scarce use of statistical tools (like the credit score cards) that could expedite the lending processes. The underdevelopment of such tools also exerts an adverse effect on the number of borrowers by financial institutions, a number that remains – with one or two exceptions by country - under the critical size to treat the risk portfolio from a risk management perspective.

Other weaknesses spotted by the focus groups include: (i) the lack of communication on existing instruments; (ii) the inappropriate credit and VC legal and regulatory frameworks; (iii) as well as more ‘secondary’ – but interesting - topics (formulated by the focus groups of 2 to 3 countries only), such as legal and tax issues related to guarantees; low competitive intensity between FIs; and the lack of clear development mandate given to FIs.

5.2 Risk Capital

As regards risk capital, most countries spotted that the key issues consisted of a lack of exit opportunities, the reciprocal mistrust of entrepreneurs and investors, the inappropriate legal framework and the lack of awareness on Private Equity (PE) and Venture Capital (VC) industry practices.
The lack of exit opportunities is often referred to as the lack of exit opportunities on a secondary market (such as the Nilex that was created in 2007). It must, however, be acknowledged that exits through Initial Public Offerings are also very scarce in Europe or in the United States (where it doesn't represent more than 1% of liquidity events).

The issue is therefore not so much about the existence of a market (that wouldn't have the critical size at a country level anyhow), but about the development of an ecosystem of equity investment instruments specialised in various ‘series’ (A, B, C,… i.e. rounds of funding), an ecosystem that could most probably only be developed at regional level to make economic sense.

It must be noted that the structural linkages that have been established in the 90s between Israel and the investors community in the US, and particularly in the Silicon Valley, were an innovative way of circumventing the limited size of the domestic market. Europe could play a similar role by supporting the linkages between the South and North VC players, not only on the supply side (a lot of European VC funds take equity in Southern investment vehicles) but also on the exit side (e.g. double listing).

Secondary issues raised as regards venture capital and equity investments in SMEs include (i) Excessive demands from investors; (ii) VC are too much oriented towards technology companies; (iii) Lack of follow-on support from investors; and (iv) Lack of information on existing facilities and venture capital practices.

5.3 Microfinance

Microfinance is used by the lower income part of the population that has no access to the traditional banking sector. It is also used by the young and women willing to develop a micro
activity. Microfinance also is an alternative option to the usurious rates applied by the informal financing sector.

There are two main types/categories of microfinance in the MED region: public microfinance, such as in Algeria, that proposes loans without interest rates, which could be described as indirect subsidies, and the private microfinance managed by NGOs and other institutions managing mainly public funds directed towards micro-borrowers.

Concerning the strengths and weaknesses of this instrument, the most important issue is in relation with litigation and disputes encountered in this area. The MFI capacity to monitor loans is weak; the legislative and regulation system remains insufficient or doesn’t even exist. On another note, the borrowers can apply (and get) simultaneously up to several loans with several IMFs, or get several loans, which are used to reimburse previous ones. This raises questions about a potential systemic risk (pyramidal scheme). The absence of a creditor bureau or a central registry/system centralising information on the borrowers makes the monitoring particularly difficult.

As an example; this situation provoked a major crisis in Morocco in 2009 that pushed the authorities to draft a new legislative framework. For some observers, the recent evolution present most of the features of a bubble, including very rapid growth, fierce competition and a decline in loan quality, accompanied by ineffective governance and weak controls. This should be carefully monitored prior to injecting additional funding into the microfinance sector, irrespective of the immediate – but undeniable - benefits of financing micro-project bearers.

In order to avoid disputes and unpaid loans, MFIs use some escalation in their lending: the borrowing thresholds are increased on the next loans if no incident has occurred.

*Figure 10: Key impediments for the extension of microfinance*

The weak impacts of the evaluation and feedback mechanisms is a second critical point. Some MFIs lack transparency and professionalism in their daily management. The fact that
national or regional structures such as Sanabel can enable the exchange of best practices and the training of stakeholders is a good practice/solution to address this issue that deserves to be supported.

Another weakness point is the cost of the loan, stemming from the fact that (i) MFI refinancing on the local market is usually very expensive; (ii) only a tiny fraction of the resources come from the equity; and (iii) associations are not entitled to by law to collect savings. In this context, MFI often depend on grants or governmental subsidies, while in other part of the world they can rely on private initiatives (form corporates or high net worth individuals) or on the mobilisation of a community.

Other points raised include the levels of funding which is considered too low (raising the issue of stepping up micro to meso-finance), lack of MFI governance and lack of training of field workers.

6. RECOMMENDATIONS

The recommendations on policies and instruments to facilitate access to finance for MSMEs were formulated through a collaborative and participatory process at country level taking the form of a set of focus groups. For the eight (8) countries, a total of 41 recommendations were recorded and classified under three categories ‘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 in the charts below). Although there are similarities in the issues encountered, the perception of the needs is very specific by countries: as an example, no recommendation is shared by all-countries and only 7 of them are common to 4 countries or more.

6.1 SUPPLY

In terms of supply, the most commonly shared recommendation pertains to the development of credit bureaus and the adoption and support to the implementation of a blended score card system for SME lending.

**Credit information systems** (or credit bureaus) gather data on the credit standing of borrower, be they individuals or enterprises, in view of minimizing information asymmetries and facilitating the registration of assets as collateral by SMEs. Such records should include all available credit information. Credit bureaus can be either public, in which case they are usually under the custody of the central banks for supervisory purposes, or private in which case they are established by financial institutions.

The credit reporting sector in MED countries remains still underdeveloped, despite significant improvements recorded over the last ten years thanks to heavy support provided by development partners. Besides Israel, that is fully functioning in that respect for more than 10 years, there has been progress in Algeria, Egypt, Lebanon, Morocco and Palestine.

The new Moroccan credit bureau that is operating since 2009, is a hybrid model based on a contractual concession of the management of public registries (regulated by the Central Bank but owned and managed by a private firm selected through an open tender). In Egypt, private and public credit bureaus are playing complementary roles in supporting the financial industry. In Algeria, since 2012, borrowers can access their data from the ‘Centrale des
risques’ and no minimum size is set anymore for having a loan registered. Tunisia (2009) and Palestine (2013) passed similar laws that guarantee credit records by citizens and enterprises. Jordan has established a public credit information bureau, but the information is not widely available and firms and individuals cannot access their data by law. However, as documented by the Doing Business 2016, with the exception of Israel, the coverage of credit bureaus in the MED economies, either public or private, remains limited, particularly in Algeria, Jordan and Palestine.

Table 5: Credit bureau coverages

<table>
<thead>
<tr>
<th>As % of individuals</th>
<th>ALG</th>
<th>EGY</th>
<th>ISR</th>
<th>JOR</th>
<th>LEB</th>
<th>MOR</th>
<th>PAL</th>
<th>TUN</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit bureaus</td>
<td>0</td>
<td>20,9</td>
<td>67,5</td>
<td>0</td>
<td>0</td>
<td>23,4</td>
<td>0</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Credit registries</td>
<td>1,9</td>
<td>6,6</td>
<td>0</td>
<td>2,4</td>
<td>23,9</td>
<td>0</td>
<td>22,5</td>
<td>28,9</td>
<td>66,7</td>
</tr>
</tbody>
</table>


A second recommendation concerning the supply side relates to the capacity building of the middle and top management of FIs to foster decisions based on projects’ cash-flows. This is usually done either through banking institutes or as an accompanying measure of SME lines extended by development partners and oriented towards specific credit analysis techniques. This, however, resulted in mixed results as the training was aimed at the technical level without sufficient involvement from the top management level, except for those institutions whose interventions are explicitly targeted at SMEs (e.g. BFPME in Tunisia).

For SME financing to be significantly developed, the involvement of private banks (or State-owned-banks operating like private entities as they are listed on the stock exchanges) is critical. These institutions being primarily driven by profit and dividends paid to shareholders, the challenge is to convince their top management and Boards that SME financing can be profitable and yield return on invested capital that sufficiently remunerates the costs of funds and risk taken, following which the General Assembly can approve a fully-fledged SME finance development plan by which knowledge and technical expertise will be mobilized on the bank’s own resources (banks being globally profitable and over-liquid),

The SME financing training should therefore start at the top management level to ensure that the proper strategic impetus is given to adopt and implement a risk management framework that is less relying on real collaterals. The training should be oriented towards the actual benefits to shareholders expressed in terms of business development, product and services cross-selling, increased Net Banking Income and dividends or share price increases and should result in the mainstreaming of SMEs into the various bank strategies.

The Malaysian national SME guarantee fund

As an example, Malaysia succeeded in the mid-2000 to raise the interest of commercial banks by launching an aggressive national guarantee fund auctioning SME loan dossiers. Banks have to place their offers within 48 hours. Terms and conditions are under a sealed envelope that is publicly opened, the SME choosing the most attractive offer. This had an effect to foster competition and exert downward pressure on the banks; spreads and collateral requirements.

As important as the strategic support, the banks’ and financial institutions capacities should be developed as regards the knowledge of key sectors of the economy. As a result of decades of collateral-based lending, financial institutions indeed ignore sector metrics and benchmarks, which is a major impediment to undertake a credit analysis. This training should
ideally be provided in close coordination with the business / sector representations to ensure a transfer of knowledge on the reality of the market.

As opposed to the mainstream sentiment, it is commonly accepted by bankers that the major banks have the capacities to mobilize, overnight, systems and talents to deal with any technicalities related to SME lending provided that the strategic will exists (by purchasing IT tools, undertaking internal training or hiring talents working in Europe or the USA). The strategic and sector level trainings should therefore concentrate on demonstrating in a convincing manner that SME portfolio development is ‘good for business’, an argument that has been deliberately ignored by those donors, and notably the EU, that put a pride into focusing on development without taking into consideration that banks are for most of them private and asked to generate returns for shareholders (IFC is an exception in this respect). This results in a fool game between bankers and the donor community, banks claiming that they need more TA and soft funding (as they don’t understand SMEs), while funds made available will actually generate financial return for the bank’s shareholders in the form of administration fees or short term investments, notably in Government bonds (especially in countries with foreign exchange shortage).

A third recommendation relates to the necessary increase of the width of the financial sector by fostering innovative banking as well as non-banking financial instruments (e.g., leasing, risk capital, stock markets).

Leasing is - in principle particularly attractive, as it offers SMEs uncollateralized lending for enterprises that do not have a long credit history or a significant asset base for collateral. The assessment of the implementation of the SBA in MED countries carried out by the European Commission, the OECD, the European Training Foundation and the European Investment Bank in 2013 highlights that comprehensive legal frameworks still remain to be completed in order to fully develop sustainable leasing activities; even if in all MED countries the legal framework exists in the form of a leasing law (except for Israel where leasing is ruled by the tax law), still the rights of lessors and lessees and tax rules need to be clarified, notably in the case of bankruptcy. Beyond the gaps in terms of legislation that impede the development of the sector, the lack of registry of moveable collateral is an issue for lessees. The absence of active and transparent second-hand markets raises also uncertainties as regards the price of sale of the assets in case of foreclosure (as mentioned above). Last, the leasing companies that need to mobilize external finance to fund their activities are affected by the high costs of borrowing which makes the final costs of the leasing operations very high, all the more so in contexts where the tax leverage effect is limited (due to widespread net income under-declarations).

The availability of risk capital for SMEs is still limited in the MED region owing to several factors that include regulations, investment opportunities and exit routes. As regards regulations, besides the development of a good business climate, a key determining condition for a healthy private equity sector is the creation and implementation of legislation in line with venture capital good practices (along the lines of the European Venture Capital Association), even if specific legislations for venture capital/private equity/investment funds are in place in Algeria, Egypt and Tunisia. As mentioned in the above assessment report, the

Algerian law relating to investment funds sets a high level minimum capital for entry. Israel has established a buoyant risk capital market without any specific legislation, but in spite of the existing 70 venture capital funds, the traditional sector is only marginally benefitting from equity investments as opposed to the high-tech sector, which reduces the sector’s socio-economic impact. In Palestine, four funds have been created over the last 5 years that mainly focus on SMEs. In Lebanon, the establishment of the capital market authority and the launching in 2015 of the Central Bank of Lebanon’s incentive and risk-sharing scheme that will facilitate the channelling by banks of up to USD 400 million (EUR 288 million) over the next seven years for equity investments in start-ups are two important breakthroughs.

Although it is usually mentioned that difficulties of development of the risk capital activities mainly stem from the lack of exit opportunities (notably through markets), it is believed that the biggest challenge remains to identify a flow of deals that have revenue and profit growth potential attractive enough to remunerate the risk taken by investors. Also, in the time of globalization, cross-border trade sales across regions are easy enough to offer ample exit opportunities (ex. Maktoub sold to Yahoo in Jordan or purchase of Shahiya by the Japanese Cookpad in Lebanon).

In that respect, the issue of the donor community stems from their internal organization and the lack of internal coordination between geographic departments which impedes capturing potential global synergies. Considering the South MED as a partner ‘to conquer the world’ (EU-MED and Central Asia, EU-MED and ACP, EU-MED and Latin America) is still not enough considered. An immediate action in that respect would be to develop bridges mirroring the reality of the real sector that doesn’t know regional administratively-set borders.

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15 The central bank would guarantee 75% of equity investments made by banks in start-ups, accelerators/incubators or venture capital funds.
EuroQuity is a service created by Bpifrance in 2008 to put gazelles in contact with development partners, particularly investors. Initiated by Bpifrance, at the request of the French Government and in collaboration with the Higher Council of the Order of Accountants, it allows companies and investors to register at no cost on the EuroQuity. To access this platform, one should only complete the user profile, presents the company’s business or the desired activity and mentions a capital increase plan. It is then possible to apply to one or more labels or communities, allowing to be more visible to other users of EuroQuity.

The main features of this service are that it is a search engine that allows access to EuroQuity companies and investors depending on particular interest, including the amount of desired investment, by type of industries or location, etc.. An alert system is included to notify in real time the joiners. The platform includes as well a message system to exchange with others.

EuroQuity is a service offered in partnership with Sowalfin, Belgium. The device is being extended to other European countries (e.g. Italy, Spain, etc.) for companies listed on http://www.euroquity.com/ that can find partners and European investors. They have a multilingual interface to present their profile in French, English and German. Since its launch, more than 415 million euros were raised by companies, with a rate of satisfaction and intention to re-use the service averaging 80%. This platform and could serve as an inspiring example for MED countries.

It remains that the existence of active and deep SME equity markets could facilitate rising of financing, notably for corporates and financial institutions, which in turn would have a positive domino effect on SMEs. But the picture of stock markets in the region is mixed: despite high market capitalization in some of the MED economies (Israel, Jordan, Morocco), capital markets do not seem to provide a significant complement to bank finance for SMEs even though most countries have compartments reserved for companies with lower capitalization.

For example, Palestine witnessed a significant improvement with respect to the 2008 assessment as new regulations in 2013 distinguish between a main market and a secondary market with lower capitalization, but the constraint to have at least 50 shareholders is a barrier.

In Egypt, the NILEX has developed a stock market for small companies but a very limited number of SMEs are listed, as the minimum requirement for entry is still relatively high.

Similarly, in Morocco, different sub-categories of the Casablanca Stock Exchange were created to allow firms with lower capital to enter, but the vast majority of SMEs still do not satisfy entry criteria.

In Tunisia, while there is no minimum capital requirement for entry to the alternative market, the company must be held by at least 100 shareholders.

In Israel, only high-tech SMEs benefit from more flexible and separate terms, mostly enabling them to offer shares to the public under particularly lenient terms.

The regulatory issues may not be the only ones to affect the sizes and efficiency of SME capital markets. In absolute terms, the capital market sizes remain limited, which make them subject to flying capital swings and therefore extremely volatile. A regional stock exchange may be utopic, but could be an option (as the one developed in West Africa) to enlarge and deepen the SME securities markets.
Other key recommendations related to the supply-side notably include: 1) the streamlining of application process for SMEs; 2) strengthening the advocacy power of SMEs; 3) setting up SME banks; 4) harmonization among FIs on the application forms for SMEs.

Figure 11: Key recommendations as regards the supply side

Source: country fact sheets.

6.2 DEMAND

As regards the demand side, all focus groups (except in Israel) stressed that information on financings available is insufficiently disseminated, notably as regards the terms and conditions attached to the facilities. The work undertaken during the mapping showed that such detailed information is not easy to access as financial institutions don’t want to commit on terms that may vary from one borrower to another; and often consider detailed data confidential as it reflects the strategy.

Figure 12: Key recommendations as regards the demand side

Source: country fact sheets.

If the present mapping is expected to contribute to raising the awareness on the existing facilities, it is believed that the only efficient way to foster transparency is to increase competition intensity among the various FIs and to establish an e-platform of existing facilities that should be updated by the financial institutions themselves in exchange of services rendered. This could be an initiative supported at regional level by the private and public sectors (an example of such platform for Africa is www.afp-africa.com).
Another recommendation shared by most of the MED countries related to the **support provided to enterprises**. Business development services can play a critical role to improve the quality of the demand from a technical, commercial and management perspective. This is also linked to the third recommendation that advocates for support aimed at increasing the financial literacy of money seeking companies.

Although there is no comprehensive survey-based evidence available in the region, the SBA Policy Index assessment of 2014 considers that the financial literacy remains low in most of the MED economies. On the policy level, Israel, Lebanon, Morocco and Egypt have either launched or are at an advanced state of designing a national strategy for financial education.

<table>
<thead>
<tr>
<th>International Network on Financial Inclusion and the Alliance for Financial Inclusion</th>
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<tbody>
<tr>
<td>The OECD has issued High Level Principles adopted by a working group, the International Network on Financial Education (INFE). These principles have governed the creation, with support from the Bill and Melinda Gates Foundation, of The Alliance for Financial Inclusion (AFI), a network of decision makers in emerging countries, established in 2008, and with more than 90 countries including Morocco (since 2011) and Egypt (2015).</td>
</tr>
</tbody>
</table>

In Morocco, the Moroccan Foundation for Financial Education was established in 2012 to coordinate the actions of its members for financial education in order to raise financial education as a principle of financial inclusion; to promote the principles and good practices related to financial education; to encourage national awareness campaigns for the population and to improve the knowledge of financial risks and ways to protect themselves.

Egypt recently became a member of AFI and a national committee formed under the auspices of the Egyptian Banking Institute (EBI). The Central Bank of Egypt is currently drafting a national strategy for financial inclusion and financial literacy.

Some efforts were undertaken in Jordan, where the promotion of financial literacy is stated as one of the central policy priorities under the Jordanian National Policy Framework for Microfinance. In Israel, financial literacy is relatively higher than in other MED economies and initiatives are at a more developed stage.

Participants to working groups supported the creation of more **effective one-stop-shops** providing – beyond administrative support – all kind of financial and non-financial support, notably for the very small enterprises that don’t have access to formal business development services. Several initiatives have been developed in this respect such as Morocco Enterprise, JEDCO in Jordan or upcoming coordinated BDS / On-stop-shop programmes to be launched in Egypt in 2016 with the support of the EU.

Another interesting dimension came out of the focus group and it concerns the **development of a culture of transparency**. This topic calls for a reduction of the level of informality and semi-informality that are particularly important in Egypt and Tunisia, but also for measures to entice companies to produce a full and reliable financial reporting, be they in the form of incentives or penalties. It must also be noted that the issue of transparency is also linked to the business environment and tax system simplifications and stabilization that have pervasive effect on regulation circumventing and petty corruption on civil servants in charge of enforcing the laws.
6.3 REGULATORY

Regulatory and legal framework of financing instruments may as appropriate one or obstruct the access of MSMEs to finance.

**Figure 13: Key recommendations as regards the regulatory environment**

These effects can be positive and direct as is the case of government incentives or central banks to banks for direct loans to MSMEs. This is also the regulatory tool most frequently mentioned by focus groups. Others may be direct as land regulations or mortgages that can facilitate the context of decision guarantee. Nous have already mentioned the importance of access to bank records centralizing economic and financial data of enterprises, especially by development of credit bureaus or “credit bureaux”. The lack of reliable and timely information leading to increased risk perception and thus slows or grants loans SMPE either by increasing the cost to the borrower.

In descending order of importance, are discussed the issues of simplifying legislation concerning the establishment of venture capital funds and mezzanine funds. The lack of capital is indeed a major obstacle to the modernization and development of small businesses. MSMEs’ dominant family does not have a culture of equity and the banking system is based on prudential rules that integrate the ratio indebtedness / equity. Awareness actions in financial literacy (Financial literacy) is an element of Thun-Bern of all regulatory devices.

The interim equity financing tools, that are mezzanine funds, are also expected by our correspondents and can be effective levers for financial institutions in terms of engineering. Here there still must be legal frameworks well adapted to the situations of each country.

For companies with development potential, particularly innovative businesses, the use of risk capital and business angels is one of the most frequent support development routes, provided that businesses as investors have a clear and legally secure their relationship since the initial investment to exit. Structuring of securities markets is a condition of relative fluidity investments.

Other topics discussed during the focus groups dealt with the homogeneous definition of MSMEs and their use to effectively target support to access to funding according to the characteristics of micro, small and medium enterprises. The approach of the medium-sized companies was little mention.
Finally, the legal definition of a tax and self-entrepreneur scheme is part of the proposals discussed.

6.4 Financial services

Financial services and access to information can also play a relevant accompanying effect of all the other measures.

Figure 14: Key recommendations as regards financial services

Source: country fact sheets.

The first element concerns cited banking mediation. Mediation is a process by which parties agree to ask a third party, the mediator, to assist them in finding a solution to their conflict. Mediation is soft and flexible, the parties will retain full control of the course. The mediator is there to reconcile the views of the parties and offer them reliable, and in a private and confidential setting. This is more or less developed in the eight countries. Morocco and Tunisia offer e.g. promoted on internet devices like the Moroccan Centre of Banking Mediation and the Observatory Tunisians Banking Services. This process is still relatively unknown companies and little used.

Finally, the two other issues discussed regarding the implementation of centralized records of microcredit (as we have commented elsewhere) and improving the performance of host proximity wickets. On this last point, it is not the utopian concept of single window is desired, but the ability for a company to have a good level of confidence on the relevance and extent of the information given about him expectations in terms of funding.
7. THE WAY FORWARD

The mapping and the recommendations of the focus groups were presented and discussed in Brussels on the 24th of February 2016 during a regional seminar on Access to Finance for Inclusive and Sustainable Growth. The one-day seminar was organised and structured to encourage policy discussion and to come to conclusions and reforms needed at country level to unlock Access to Finance for MSMEs on the basis of the country mappings and interaction with representatives of the SBA representatives, entrepreneurs and bankers.

As a result, participants agreed on a set of 6 key recommendations as follows:

- **Increasing the availability of long term finance and risk capital**
  
  Despite a relatively high level of liquidity in the financial sector in the region, resources are mainly constituted of short term deposits meant to be invested in fully secured treasury instruments. Public support can be instrumental for exerting a transformational effect on maturities and risk profile of the money channelled through banks and other financial institutions towards the productive sector. This may take several forms: provision of term finance with tenure of 10 to 12 years; provision of guarantees on the extended maturity (ex. from 7 to 12 years); provision of risk capital, targeting notably the traditional sector, or first loss guarantees to offset risk.

- **Building up the capacities of the financial institutions to deal with MSMEs**
  
  This could be promoted by the provision of public support to the mainstreaming of ‘MSME financing’ into the banks’ and other FIs’ strategies, a dimension that has been, so far, overlooked. Once the strategic and programmatic frameworks are in place, support can be provided to the adoption of tools to facilitate credit analysis and risk management, notably at the level of the smallest FIs (e.g. MFI). FIs should also be enticed to develop their knowledge base on what they consider priority economic sectors, notably by developing dialogue platforms between FIs and sector representative organizations. The technical support should also be accompanied with the training of bank staff and management on the implementation of the strategy, the tools and sector knowledge.

- **Increasing competition between financial institutions by enlarging the offer of SME finance and disseminating information**
  
  In the MED region, SME financing remains confined to a little number of institutions by country, resulting in a supply-driven market with low competition intensity. Supporting the development of alternative financing channels (e.g. leasing, factoring, tier-two banks, post banks) and financial services (e-payment, e-banking, crowd-funding) will allow enlarging the offer and spurring competition. Supporting the dissemination of information on the financing and financial services available would also valuably contribute to a more balanced relationship between SMEs and the financial sectors.

- **Fostering financial literacy and business development services**
  
  Despite recent initiatives, financial literacy is still rather low notably at the lower level of the entrepreneurial pyramid, which impedes the dialogue and efficient interfacing between the financial sector and project sponsors. The financial literacy programmes could be valuably supported alongside the provision of business development
services (BDS). These BDSs could be financial or non-financial and aimed at strengthening the quality of the demand in an integrated way. Ideally, the BDS should be highly coordinated and delivered through a widespread network of focal points, among which the one-stop-shops could play a pivotal role.

- **Increasing the outreach of guarantees and risk sharing instruments by improving the related regulatory framework and fostering innovation**

  Guarantee mechanisms could play a greater role in fostering economic development, notably for the most vulnerable targets, if their creditworthiness was increased (ex. by being backed by the Central Banks), if the payment of claims was accelerated (ex. with subrogation of the claim to the guarantee company), and if innovation was fostered (ex. development of mutual guarantee funds). The creation of a platform allowing exchange of experience in that respect would be invaluable.

- **Fostering VC and private equity financing by strengthening the ecosystem**

  Venture capital and private equity are constrained by the insufficient production of good projects, the focus on high-tech ventures and the lack of exits. Public support could participate in improving the equity ecosystem by aligning the legal environment with international good practices, supporting the emergence of funds that address the various enterprise needs throughout their development (series A, B, C…), and providing targeted tax incentives to individuals investing funds. Exits could also be facilitated by spurring cross-borders investments (e.g. through the ANIMA network) and linking the national venture capital communities to other VC magnets like European clusters, techno poles or the Silicon Valley. The ecosystem would greatly benefit from an awareness campaign on the practices and requirements of equity investors in view of facilitating the dialogue between funds and fund managers and the provision of support to new management teams.

- **Open new growth areas, including strengthening of support for innovation funding**

  We see every day the arrival of new companies or "start-up" driven by innovative projects. It would be wrong to believe that it is necessary to have a strong capability in R&D to generate innovative activities or in business creation or development of existing businesses. This is usually to provide a new combination of components already available and associated with new business models, new organizations, new business approaches, etc. The Mediterranean region, like Israel and Morocco is able to compete with any global horizon. The financing arrangements are specific to area where the intangible costs are often prevailing. They also demand a very high reactivity of financial operators and constitute an attractive opportunity to deal flow for the venture capital and investment funds. The development of current businesses whose management is family is possible and should be encouraged, but it must also open new spaces, create jobs (especially vis-à-vis the graduates) and create wealth regardless of natural resources each country.

- **Developing a harmonised and robust monitoring system**

  The lack of harmonised reporting stems from several reasons including confidentiality, commercial strategies and the fact that the available pool of financing evolves constantly. As this is an impediment to policy making and financial planning,
a common recommendation from focus groups was to have the MED countries adopting a harmonised framework for reporting that would be regularly updated (at least once a year).
## Annex 1 Glossary of Banking and Financial Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Bad debts</td>
<td>Amounts owed to a company or a bank that are not going to be paid. An account receivable becomes a bad debt when it is recognized that it won’t be paid. Sometimes, bad debts are written off when recognized. This is an expense. Sometimes, a reserve is set up to provide for possible bad debts. Creating or adding to a reserve is also an expense.</td>
</tr>
<tr>
<td>Banking Guarantee</td>
<td>A promise made by a state or a national bank to provide payment to a bank or lender on a bond, loan, or other liability in the event of default. Banks often make guarantees on behalf of certain clients to promise payment on loans. Bank guarantees reduce the risk to loans and liabilities and usually improve the credit agency ratings of bonds. It’s the leverage effect.</td>
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<tr>
<td>Bond</td>
<td>A written record of a debt payable more than a year in the future. The bond shows amount of the debt, due date, and interest rate.</td>
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<tr>
<td>Business Angels</td>
<td>An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors invest online through equity crowdfunding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies</td>
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<tr>
<td>Collateral</td>
<td>Something pledged as security for repayment of a loan, to be forfeited in the event of a default. Banks tend to require real estate or land collateral that are easier to value and resell in case of foreclosure. As a discount is applied to the market value of the good, the fair value of the collateral is often higher than the debt.</td>
</tr>
<tr>
<td>Crowdfunding</td>
<td>Crowdfunding is a method of raising capital in small amounts from a large group of people using the Internet and social media. Unlike funds from venture capitalists or angel investors, the money raised through crowdfunding doesn’t necessarily buy the lender a share, and there is no guarantee that it will be repaid if the venture is successful.</td>
</tr>
<tr>
<td>Debt</td>
<td>An amount of money that a company owes to a person, bank, another company, etc.</td>
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<tr>
<td>Equity</td>
<td>Defined as assets minus liabilities owed to third parties; this is the portion of the company's that represents the shareholders’ net asset value.</td>
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<tr>
<td>Factoring</td>
<td>Selling a receivable at a discounted value to a third party for cash.</td>
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<tr>
<td>Financial Institution</td>
<td>Organization engaged in any of the many aspects of finance including commercial banks, thrift institutions, investment banks, securities brokers and dealers, credit unions, investment companies, insurance companies, and real estate investment trusts.</td>
</tr>
<tr>
<td>Initial public offering (IPO)</td>
<td>When a private company goes public for the first time by being listed on a stock exchange.</td>
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<tr>
<td>Islamic banking</td>
<td>Islamic banking is banking or banking activity that is consistent with the principles of sharia (Islamic law) and its practical application through the development of Islamic economics. Sharia prohibits acceptance of specific interest or fees for loans of money (known as <em>riba</em>, or usury), whether the payment is fixed or floating. Investment in businesses that provide goods or services considered contrary to Islamic principles (e.g. pork or alcohol) is also <em>haraam</em> (&quot;sinful and prohibited&quot;).</td>
</tr>
<tr>
<td>Leasing</td>
<td>Obtaining the use of machinery, vehicles or other equipment on a rental basis. This avoids the need to invest capital in equipment. Ownership rests in the hands of the financial institution or leasing company, while the business has the actual use of it.</td>
</tr>
<tr>
<td>Letter of Credit</td>
<td>Conditional bank commitment issued on behalf of a customer to pay a third party in accordance with certain terms and conditions. The two primary types are commercial letters of credit and standby letters of credit.</td>
</tr>
<tr>
<td><strong>Leveraged Buy Out</strong></td>
<td>Acquisition of a controlling interest in a company in a transaction financed by the issuance of debt instruments by the acquired entity.</td>
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<tr>
<td><strong>Mezzanine Funds/ financing</strong></td>
<td>Mezzanine financing is a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.</td>
</tr>
<tr>
<td><strong>Microfinance</strong></td>
<td>Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty.</td>
</tr>
<tr>
<td><strong>Missing Middle</strong></td>
<td>Consists of SMEs that are too large for micro-finance institutions and too small for main-stream private equity and not serviced by commercial banks, which prefer to focus on high-value, low risk corporate clients. This missing middle is deprived from capital.</td>
</tr>
<tr>
<td><strong>Statement of Cash Flows</strong></td>
<td>A statement of cash flows is one of the basic financial statements that is required as part of a complete set of financial statements prepared in conformity with generally accepted accounting principles. It categorizes net cash provided or used during a period as operating, investing and financing activities, and reconciles beginning and ending cash and cash equivalents.</td>
</tr>
<tr>
<td><strong>Venture Capital</strong></td>
<td>Venture capital (VC) is money that is provided to seed early-stage, emerging growth companies. Venture capital funds invest in companies in exchange for equity in the companies they invest in, which usually have a novel technology or business model in high technology industries, such as biotechnology and IT. The typical venture capital investment occurs after a seed-funding first round of institutional capital to fund growth in the interest of generating a return through an eventual exit event, such as an IPO or trade sale of the company. Venture capital is a type of private equity.</td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>Current assets minus current liabilities. In most businesses, the major components of working capital are cash, accounts receivable, and inventory minus accounts payable. As a business grows it will have larger accounts receivable and more inventories. Thus the need for working capital will increase.</td>
</tr>
</tbody>
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