Minutes of the Regional Seminar
"MSME Access to Finance for Inclusive and Sustainable Growth - Stimulating MSME Growth in the MED Region"
Brussels – 24 February 2016

INTRODUCTION

A regional seminar on access to finance entitled "**MSME Access to Finance for Inclusive and Sustainable Growth – Stimulating MSME Growth in the MED Region**" was organised in Brussels on 24 February 2016. This seminar is part of the "Enhancement of the Business Environment in the Southern Mediterranean" Project (named the EBESM project), which is funded by the European Union (3 million EUR) and which aims at promoting MSMEs in the Southern Mediterranean region (MED region).

This seminar is linked to the "**EU Initiative for Financial Inclusion in the Mediterranean**" initiated by the European Commission in partnership with EU financial institutions, such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the German KfW Development Bank, the French Development Agency (AFD), and others actors committed to inclusive and sustainable economic development in the MED region. This initiative aims at mobilising more than €1.6 billion to help translate into action the reform agenda in support to MSME development.

Given that several studies clearly indicate that access to finance is one of the major challenges that MSME face in general and in the MED region in particular (in some MED countries less than 20% of credit financing goes to MSMEs), the goal of this seminar was to find ways how to foster access to finance for MSME in the MED region in a sustainable manner. To this extent it was aimed at:

- Raising awareness, share information and good practices about existing public policies, mechanisms and instruments supporting MSME financial needs for development in the MED region;
- Discussing reforms needed at country level to unlock access to finance for MSME; and
- Discussing the type of support available from the European Finance Institutions to help MED countries implement reforms in favour of MSME financial inclusion.

In line with such aim the event brought together around 40 participants from seven different MED countries (Algeria, Egypt, Israel, Jordan, Lebanon, Palestine and Tunisia) from ministries, central banks, guarantee institutions, private banks, from associations from the financial sector and also from the business sector including chambers of commerce and industry, entrepreneurs, etc. In addition, around 30 participants from the EU such as for instance, from the European Commission, the European Investment Bank, the European Bank for Reconstruction and Development, the German KfW Development Bank, the French Development Agency (AFD), national public banks for investment (e,g. BpiFrance) the European association of guarantee institutions and other representatives from the civil society including think thanks, took part.

SEMINAR OVERVIEW

During the seminar five panels took place, which were all characterised by lively and dynamic discussions and debates among the panellists and the audience. The high number of excellent and relevant questions fielded from the participants and experienced comments proved the strong interest in this topic.

Hereinafter, a brief overview is given of what was discussed during each panel.

I. Access to finance: the perspective of businesses

This panel gave an insight into the funding issues and challenges encountered by start-ups and existing small enterprises in five partner countries, namely, Egypt, Israel, Jordan, Palestine and Tunisia. Four were start-ups and one was an existing small enterprise. Three operated in the service sector (event management, digital marketing, literary café) and two in the manufacturing (clothing and ceramics).

Mentoring, referral services, training and other technical assistance were considered essential for success by the panellists. A recurrent issue was the need for a go between, an intermediator who could speak both the languages of the entrepreneur and the bank. A complaint was made that banks failed to accept as collateral intangible assets like a website. Given the risks in start-ups it was also thought useful to guide young entrepreneurs to networks of like-minded businesses who had made mistakes beforehand.

On the need to enlarge the funding options beyond pure bank finance all panellists emphasized the need for the right mix of funding sources: for example, the use of own savings, backed up by an interest free government loan to leverage commercial bank funding. Another positive experience mentioned involved the help of business angels (VODAFONE). Specifically designed funding packages for women entrepreneurs ("*shourouq*") by foreign banks (ETIHAD bank) also seemed to have worked. Having a reliable external trading partner also helped to overcome initial cash flow constraints. The entrepreneurs confirmed that all had been obliged to make substantial financial sacrifices for a fairly long period: "bootstrapping". In all instances banks had come into the game as funding partners only after the business had operating for at least two years.

The entrepreneurs on the panel pointed out that bank staff did not seem to detect their entrepreneurial potential. A general lack of interest on the part of banks was illustrated by the failure to visit the plant of one of the entrepreneurs despite repeated invitations. Banks could in their view nevertheless play a useful subsidiary role in working capital finance, but even here they felt that a greater responsiveness was needed. Start-ups and small businesses cannot wait endlessly, banks could act more rapidly. The hierarchical decision making processes in bank lending was seen as a factor accounting for this lack of reactivity.

In the ensuing debate it was pointed out by representatives by the financial industry that bank resources used for lending to start-ups carried a fiduciary responsibility. It was not the bank's money but belonged to its depositors, asset- and shareholders. The reserve shown by banks therefore reflected a healthy and prudent position on the underlying risk, hence the need to find forms of collateral suitable to both banks and the borrowing start-up and SME.

II. Access to finance : from the banking point of view

During panel two, entitled "**Advancing financial inclusions for MSME in the MED region**", existing challenges and possible solutions as to access to finance were discussed. The panel was composed of four very well experienced practitioners from the banking sector from Tunisia, Lebanon, Jordan and Egypt who shared their profound knowledge with the audience.

All of them acknowledged that MSME face difficulties in getting access to finance and that this is the more the case the smaller the company is, which also means that start-ups are strongly affected. It was also consensus that the insufficient supply of MSME with finance hinders their growth and that measures are needed to overcome this situation helping MSME to become more competitive and to create jobs.

The approaches described and discussed covered programs which aim to supply MSME with venture capital like it is the case in Lebanon. This way of financing was determined to be important for the creation of a company. Furthermore, the advantages of the guarantee instrument were presented highlighting that this instrument improves the credit loan conditions and reduces the bank's request for collaterals which remains a major challenge for MSME.

Responding to the discussions of the first panel it was underlined that bankers are obliged and also willing to take risks but that such risks must be very well calculated. In this context it was also stated that entrepreneurs have to provide sufficient information and that there is often a lack of understanding. From the financial sector's point of view there is an expectation gap between banks and enterprises which is the more the case for start-ups. Start-ups face particular challenges making their specific situation different from the ones of SME since they have to provide a complete business plan, a business strategy which very often is not the case.

It was also discussed that it is important to share best practices and to learn from other institutions. To give an example in Tunisia the public bank takes part in twinning exercises, in partnerships with other players and cooperates with European financial institutions such as, for example, the EIB with the aim to enhance the role of the bank and to improve its services in providing credits to entrepreneurs

Finally, the qualification of the staff of a bank was discussed. In Jordan banks have special agreements with specialised companies for legal - tax - Human Resources (HR) - and IT services that they offer to their clients in order to improve the communication between bank and entrepreneur thereby establishing a relationship of mutual understanding and trust.

III. Key findings of the assessment of MED countries' policies to facilitate access to finance for MSME

Following a well-founded presentation of the key findings of the mapping exercise and the assessment of MED countries' policies to facilitate access to finance for MSME in the partnering countries, made by the EBESM experts team, a very lively open debate took place regarding both, such findings and the previous two panels.

The discussion concentrated first of all on the fact that the real economy does not only need access to debt financing but also to equity financing. Moreover several participants emphasised that public authorities has to change in order to strengthen businesses. Some examples were given of public instruments promoting access to finance of specific target groups such as for instance, students, women or young entrepreneurs or for promoting MSME in genera e.g. by subsidising interest rates.

Furthermore it was discussed that counselling and advice are lacking which explains why the communication between the real economy and the financial markets need to be improved. Also, banks have to become more efficient; application periods for financing a project which last several months are hindering access to finance in a substantial way.

IV. The contributions of European Financial Institution

Introducing the panel, DG NEAR recalled that the EU Neighbourhood Initiative sought to blend a variety of financing instruments and accompanying technical assistance. It was aimed at microbusiness and all other entities struggling to obtain funding for investment. Five large financial facilities with a total amount of euro 1,6 billion will start in 2016 implemented by EIB, EBRD, KfW, AFD and coordinated by the EU Commission.

In response to the often heard criticism that in the past funding instruments had not fully reached the final beneficiaries EIB confirmed this perception. In its view more attention should be paid to the selection of the suitable local partners. KfW concurred and pointed out that the design of the SANAD[1] initiative for instance addressed this issue. AFD added that to enhance outreach EFIs also needed to work with the demand side, start-ups and SMEs, via their chambers of commerce and professional associations. This was corroborated by EBRD that illustrated the point with the technical assistance packages by EBRD's initiative to make SMEs bankable in 2 to 3 years with business advice on IT, market environment and internal management.

The moderator asked to what extent the EFIs traced the effects of their instruments. EIB felt that it was difficult to demonstrate whether they really made a difference. EIB set targets with its partners, which are monitored regularly. This is a systematic approach. AFD stated that monitoring impact could only work if it was properly anchored in national policy and the mind sets of partner institutions. The more an institution was oriented towards local needs the easier to track effectiveness and impact. EBRD recalled the strict methods of needs assessment applied in the design phase that ensured the capacity for impact monitoring.

In the ensuing debate more information was generated on direct cooperation between SMEs in the EU and in the MED region and the liability of MED central banks.

As for the EFI contributions to the new Facility, all confirmed their commitment to participate. EIB mentioned the substantial EIB funding for infrastructure, microfinance and facilitating private sector networks, like "*Reseau Entreprendre*" in Tunisia. AFD said that the institution would focus on regulation, businesses themselves and banks. A specific issue was the development of scoring models for specific sectors, as well as guarantee funds at local and regional level. KfW pointed out to the guarantee fund in Palestine and equity fund in Morocco. EBRD referred to the focus on subsectors, for example business women in Egypt, comprising credit line and advisory in order to build their capacity.

[1]Initiated and funded by KfW Development Bank with the financial support of the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union in August 2011, the SANAD Fund for MSME (SANAD) provided medium- and long-term debt and equity financing to commercial banks, microfinance institutions and other financial institutions in the Middle East and North Africa (the MENA region).

V. Moving towards a collaborative framework

The concluding session sought to discuss about the priority reform items as perceived by the members of the Working Group on Access to Finance set up by the EBESM in the MED partner countries.

Egypt recalled that major reforms had already been taken in 2008 and that as a result the banking sector had emerged relatively unperturbed from the global financial crisis. Still, the Central Bank continues to encourage local banks to increase their SME and start-up portfolios. Bank finance would appear well developed and diversified, but there were not enough venture capital firms and guarantee mechanisms.

Lebanon stated that there were still resource gaps and institutional gaps. For example there were no guarantee instruments tailored to export-oriented SMEs. Technical assistance by the EU could also help to better access the EU market and to build capacity of workers in the industry. Also, substantial changes were needed in the skill levels and mind sets required for genuine entrepreneurs. This would need to be accompanied by legal reforms. To illustrate it was pointed out that Trade Law dated back to 1915. Generally more transparency in the dealings of government agencies with the private sector was called for.

Jordan needed also more outreach for the existing risk sharing mechanisms, the Jordan Loan Guarantee Corporation (JlGC) and the Jordan Loan Guarantee Facility, established through a partnership between USAID and the OPIC. The guarantee covers up to 60% of the investments in Amman and 75% outside. There is an even bigger need for more data. Communications between SMEs and banks required an overhaul. Transparency is paramount because SMEs need to know which instrument to apply for. Banks also need to know more about SME requirements to help them more adequately and help SMEs increase their capacities. In all the above areas Jordan needed technical assistance.

Israel have an institutional set up responsive to the funding needs of start-up and SMEs. Moreover, its training system has proven effective. However where there appears to be need for reform and action is as regards the situation of midsized firms.

Tunisia learnt that the creation of institution and the launch of mechanisms are not necessarily sufficient to bring about a better match of funding supply and demand by SMEs and start-ups. What was lacking was monitoring of the application of newly initiated instruments. For example, every commercial bank was to have a Mr. SME according to a government decree. But in actual fact this has not been followed up. The current political instability interest rates remained relatively high which poses a problem for smaller forms. Some fiscal incentives were needed to ensure adequate technical assistance to SMEs. Business starters should be given a second chance if they failed once. Guarantee funds exist but it is not clear who is actually their target group. Finally, more coordination was needed between national and international financial institutions.

Palestine emphasized the need for a coherent national strategy on access to finance putting together the bits and pieces in decrees, legislation and other instructions.

As for **Algeria,** it was felt that a broader perspective was needed going beyond bank finance. Private VC firms designed to the particular needs of small and medium sized businesses would possibly make a difference.

SEMINAR OUTCOMES

One of the major conclusions drawn from the extremely lively and very active discussions is that MSME do not need one financial instrument which fulfils all their needs regarding access to finance but that a mix of different instruments depending especially on the stages of the business life cycle is necessary to serve MSME in the best possible way. Thus, the creation of enterprises requires a stronger involvement of venture capital whereas young and existing companies should benefit from the provision of guarantees.

Even though start-ups require particular attention providing them with a larger extent of assistance, it is important to not only focusing on them but finding solutions for all sizes of MSME during their whole business cycle.

In addition it turned out of the debates that changes are needed in all countries involved and that in order to improve the situation an exchange of best practices in order to learn from each other would be very helpful. In order to come up with an existing lack of competition the public sector has to undertake more in order to strengthen the private one. Procedures need to be revised in order to allow for fast decision-taking processes. MSME do not only need access to finance in a sustainable but also in a timely way.

The discussion turned over and over again on the crucial aspect of communication. One of the recommendations made is that on both sides capacity building is needed, on the borrower's but also on the bank's side in order to deepen their mutual understanding. Moreover, more needs to be done in order to make entrepreneurs aware of the existing possibilities to receive support. Support measures from the public side also need to be better brought in line with each other.

NEXT STEPS

EBESM informed that the project would provide support in developing and implementing small-scale action plans with a view to act as a catalyst and facilitator of the reform agenda. Workshops will be organised to design and fine tune action plans to contribute to unlock access to finance MSMEs. The project will provide technical assistance to implement these action plans. Seminars will be also organised in the course of 2016 at national level to disseminate results.

The EBESM Programme Manager from DG NEAR thanked the participants for their inputs and suggestions and emphasised that the SBA Coordinators and the WGA2F will keep on working together and meet regularly. There will be national and sub-regional events. There will be a debate on crowdfunding. He announced that the EBESM Project will keep on bridging gaps between SMEs and banks, in cooperation with the EU and the EFIs. Work on changes in the regulatory framework would also be done. Finally he recalled that it was ultimately the responsibility of the MED countries (government and private sector, including civil society to initiate and implement the reforms identified. The EU Commission could only play a facilitating, subsidiary role.

Concluding the seminar DG NEAR complimented the working group members on access to finance and all participants for their contributions and commitment. The EU Commission would eventually involve more EFIs, help improve coordination. With thanks expressed to all present she concluded the seminar.