

Role of Financial Sector – Suitable Investment Routes for Egyptian Industrial Areas

Financial Instruments to Promote Investment in Industrial Areas

Cairo, Egypt

By Sally Yacoub, Head of SME Finance Policy Component
Promotion of Access to Financial Services for SMEs in Egypt
(PAFSME) Project, GIZ Egypt

SME Finance in Egypt

- **SMEs' contribution** to job creation and economic development (SMEs employ 75% of workforce, contribute 25% of GDP).
- **Access to finance** is one of the greatest challenges facing MSMEs particularly in MENA (63% of MSMEs do NOT have access to finance*).
- It is estimated that **10% of formal SMEs have access to finance** in Egypt and **5% of lending goes to SMEs (2011)****.

* IFC report titled "Overcoming Constraints to SME Development in MENA Countries and Enhancing Access to Finance"

**Union of Arab Banks/World Bank Financial Flagship Survey 2011 of over 130 MENA banks

Why is SME Finance limited?

- **High risk perception of financial institutions** in lending to SMEs (thus require high collateral requirements)
- **SMEs** not bankable or do not have collateral or have no awareness
- Lack of **enabling environment** including **regulations and financial infrastructure**
- **Capacity of financial institutions.**

Support for SME Finance

- **Financial Inclusion is high on the political agenda** in Egypt with several ongoing initiatives.
- For example, the Central Bank of Egypt (**CBE**) **Initiatives** laying out the SME definition and also encouraging banks to have 20% of their portfolios for SMEs in 4 years while offering 5 and 7 % interest rates to SMEs (*Jan 2016 – Dec 2017: EGP 67.3 billion were lent to SMEs with 7.2 billion to micro, 22 billion to small, and 38 billion to medium*).
- Another example, CBE acquired 20% of the **Credit Guarantee Company (CGC)** enabling the **establishment of EGP 1 billion trust fund for SMEs**.

Support for SME Finance (Cont.)

- Egypt's Credit Bureau (I-Score), in partnership with Standard & Poor (S&P) developed a **credit rating system for SMEs** allowing financial institution to assess the **credit worthiness of SMEs**.
- The establishment of a **movable assets registry**.
- **Bankruptcy law and investment law. In pipeline: SME Strategy and SME Law**

Support for SME Finance (Cont.)

- The **Non-Bank Financial Sector** (e.g. factoring, leasing, Private Equity, and insurance) is very well positioned to also offer a diverse range of financial products to SMEs. Regulated by **Financial Regulatory Authority (FRA)**.
- A **new Leasing and Factoring Law** that should be enacted soon.
- Following microinsurance directives, **draft insurance law in the pipeline** (including micro-insurance).

Non-Bank Financial Sector

Leasing

- Relatively new sector (first law in 1995, amended 2003). **220 leasing companies registered in Egypt, only 30 are active.** A financial transaction between a lessor (leasing company) and a lessee (borrower) which needs to get an asset. The lessor purchases the desired asset by the lessee's order and then provides it to the latter.

Factoring

- Is still in its **infancy with 7 companies** registered/active in the market (first company specializing in factoring only established/licensed in 2006). 2017 saw 3 more companies applying for license. The number of **Factoring clients is still limited** (256 clients, FRA 2016 annual report). Is a **short-term finance facility** and is **suitable for SMEs** with limited access to bank financing.

Insurance

- A total of **36 insurance companies operate** in 2016 in Egypt, including 14 companies offering life insurance and 20 companies offering property and casualty insurance, one cooperative insurance company, one export credit insurance company. 8 Islamic (takaful) insurance companies.

Private Equity:

- The market is still in a development stage. "Venture Capital (VC)" investments usually refer to investments at the seed stage or start-up stage, "Private Equity (PE)" investments usually refer to investments in enterprises at the growth stage. PE/VC (buy stakes, add value and then later exist at a premium). PE/VC differs from other forms of financing: **long term capital, risk sharing partners who add value to company.**

Challenges include credit information, regulatory framework, and lack of awareness in the market.

Donors' SME Finance Support Project

Usually entail a mix of interventions including:

- Credit lines
- Credit guarantee facilities
- Capacity Development measures (possible at macro, meso, micro levels)
- Advisory services for legal and regulatory reforms

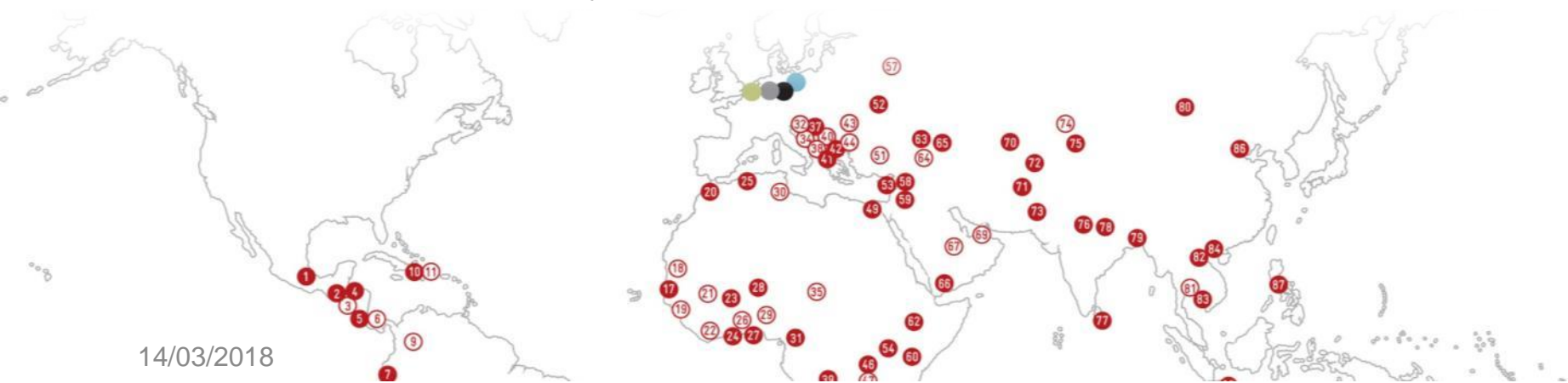


The GIZ Promotion of Access to Financial Services for Small and Medium Enterprises in Egypt (PAFSME)

Company profile

GIZ in a nutshell

- Federal enterprise supporting the German Government in achieving its objectives in the field of international cooperation for sustainable development
- Commissioned mainly by the **German Federal Ministry for Economic Cooperation and Development (BMZ)**; by further public and private sector clients internationally
- Operations in over 130 countries around the world
- Over 17,000 employees worldwide



PAFSME Project

PAFSME's overall objective (Outcome)

Financial services offered to SMEs by non-bank financial institutions (NBFIs) are strengthened with regard to positive employment effects.

PAFSME Project

PAFSME in a nutshell

Project duration: January 2016 – June 2022

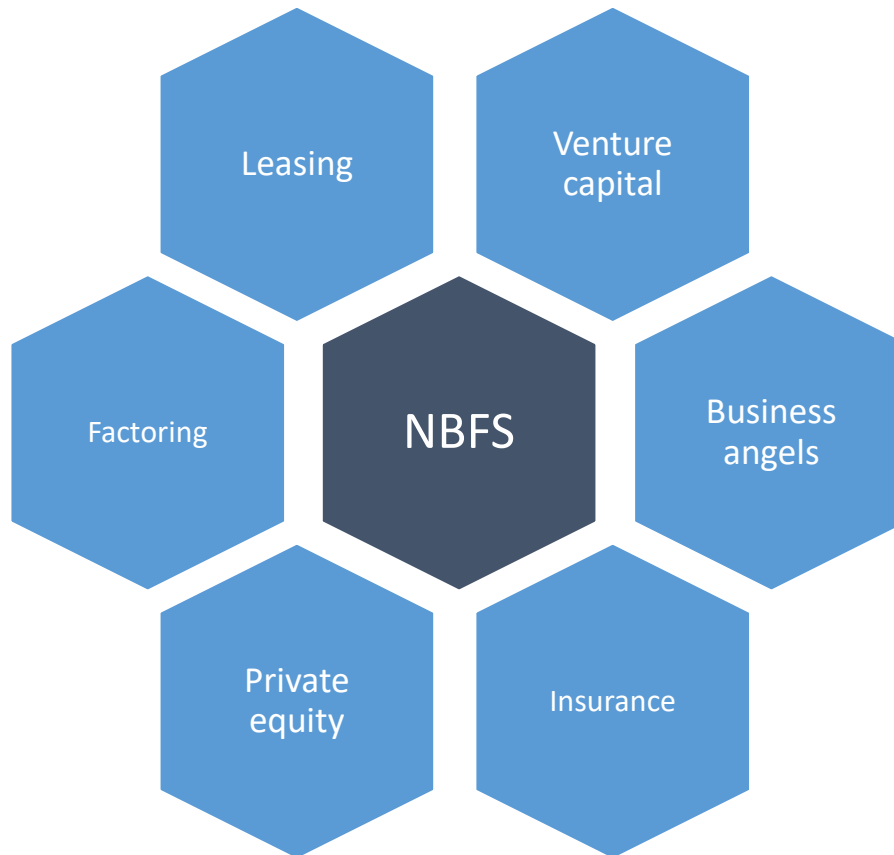
Partners:

- **Political** Partner: Financial Regulatory Authority (FRA)
- **Meso** Level partners: Credit Guarantee Company (CGC), Financial Services Institute (FSI)
- **Micro** Level partners: Egyptian Factoring Association, Egyptian Leasing Association, Egyptian Private Equity Association (EPEA), Insurance Federation of Egypt, Cairo Angels, Alexandria Angels, Business Aggregators (e.g. Chambers and Export Councils)

Budget: EUR 8,000,000

Context

Non-Bank Financial Services(NBFS)



PAFSME project

Structure of the project

PAFSME

Financial services offered to SMEs by non-bank financial institutions (NBFIs) are strengthened with regard to positive employment effects.

Component A

Improving legal and regulatory framework for NBFIs (Policy advise and capacity development of FRA)

Component B

Financial market infrastructure

Component C

Capacity Development of selected Non-bank financial institutions

Component D

Young enterprise finance

Component E

SME Insurance

PAFSME project

European Union (EU) Co-financing

- Duration: 1 January 2018 – 31 December 2020
- With the aim of “Strengthening **Financial Inclusion** and **Banking Supervision** in Egypt”
- Partner: Central of Egypt
- Co-financing Budget: EUR 3,200,000 (for a total of EUR 11,800,000)

Thank you 😊