Beyond the Crisis: Policies to Support Young Enterprises

MENA-OECD
Working Group on SME Policy, Entrepreneurship & Human Capital Development

Ministry of Investment
Egypt

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Improving Business Climate in Egypt

- Over the past few years, Government of Egypt has undertaken Major Policy Reforms to improve Overall Business Environment creating a Climate Conducive to attracting Investment as Main Growth Engine
- Deep & Comprehensive Reforms have Paid off (2003/04 – 2007/08)
- YES, Egyptian Economy is affected by Global Financial Crisis


<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
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<td>2004/05</td>
<td>4.5%</td>
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<tr>
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<td>6.8%</td>
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<tr>
<td>2006/07</td>
<td>7.1%</td>
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<td>2008/09</td>
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<td>Semi Annual 2009/2010</td>
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<td>Closing Business</td>
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SME Development
Topping Policy Reform Agenda in Egypt

WHY?

- Small & Medium Enterprises (SMEs) account for about 75% of Employment, 80% of GDP, yet contribute to only 4% of Exports and 10% of Fixed Capital Formation.

- According to GAFI: 90% of Registered Companies have capital less than LE 10 million while 70% of Registered Companies have capital less than LE 1 million.
Various Stakeholders/ Partners
SME Development in Egypt

- Banks
  - CBE/EBI
- NGOs
- SFD
- I-Score
- MOF
- MOI/GAFI
- MOTI/IMC
- Chambers of Commerce & Industry
- Donors
- EJB
- MCSBE
- MSCBE
- SMEs

Ministry of Investment
Promoting SMEs
Integral Part of Improving DB in Egypt

**HOW?** Reforms Undertaken at 2 Main Fronts

- **Ease Doing Business for SMEs** - Reducing Regulatory burden they face in Starting up, Operating and Expanding their Businesses, and

- **Improve SMEs’ Access** - Equalizing Entrepreneurial Opportunities hence reducing Income Inequality
  - **Access to Financial Services** (Banking & Non - Banking),
  - **Access to Non-Financial Services** (Business Development Services, Training, Registration & Post Registration Services through OSSs at the Central & Local levels at Governorates)
Deep Reforms Makes Starting & Doing Business Easier in Egypt

- **Establishing One Stop Shops** (Cairo, Alexandria, Assiut & Ismailia)
  - Cutting 63% and 76% of Start-up Time and Cost respectively.
  - Streamlining Start Up Procedures
  - Establishing Two more OSSs soon (6th of October & Mansoura)

- **Slashing Minimum Capital Requirement** to start a business from LE 50,000 to LE 1,000 LE 200 to Zero

- **Reducing Property Registration Fees** from about 3% of the property value to a fixed fee schedule not exceeding LE 2000.

- **Launching Trade One Stop Shops** and Introducing online custom services for Traders at Ports
  - Cutting Time to Import by 10 days and Time to Export by 6 days
  - Reducing Cost of Import & Export by 21.5% & 27.3% respectively
Broadening SMEs’ Access to Finance

• **How?** Attention to Establishing Inclusive Financial System with Reforms at Various Fronts

  o **Development of non-Banking Financial Services** - Reforms undertaken at Regulatory & Operational fronts to promote use of new financing alternatives best suited to SME needs (Leasing, Factoring & SME Stock Market)


  o **Improvement of Credit Information Infrastructure** - Lack of reliable & comprehensive information, about credit quality of current & potential borrowers, reduces access to finance especially for SMEs that often lack collateral & may not have well established track of financial records
NILEX – SME Stock Market

• NILEX launched in October 2007
• NILEX provides High Growth Potential SMEs with
  o Access to Long Term Finance to Expand Businesses & Increase Competitiveness
  o Fair Market Valuation for their businesses
  o Higher Bargaining Power with stakeholders (Banks & Suppliers)
  o Merger & Acquisition Opportunities creating more competitive entities
  o Exit Venue for Private Equity & Venture Capital Investors

• NILEX Regulatory Framework tailored to SME needs
  o Lower Listing & Trading Fees
  o Less Stringent Listing Rules
  o Main Market Disclosure Rules mostly maintained for efficiency & investor protection

• Nine Companies Listed at NILEX (but not traded yet)
• Current Market Capitalization - USD 110 million (as of Feb. 2010)
• Nominated Advisors - 22 advisors already registered at EFSA (as of Feb. 2010)
NBFIs - Leasing

• Leasing best suited to SME needs - focusing on SME ability to generate Cash Flow to service lease payments not on its credit history, asset or capital base

• Developments at Operational Front
  ➢ Leasing Guidelines issued in 2008
  ➢ Leasing Contract Registration Procedures Simplified to be completed within 48 hours without limits on number of assets listed in same contract
  ➢ Leasing Registry Automated - To serve as Movable Collateral Registry

• Developments at Legal Front:
  ➢ Amendments to Leasing Law 95/1995 have been prepared and will be enacted soon. These will enable Leasing Companies to:
    ➢ Offer Operational Leasing
    ➢ Transfer Contracts to Entities not registered as Lessors
    ➢ Seize Leased Assets in case of default
**NBFIs - Factoring**

- Factoring provides SMEs with financing for their working capital and increase their liquidity.

- **Amendments to Executive Regulations of Investment Law 8/1997 made in 2007** to set rules & regulations governing activities & capital requirements for Factoring firms in Egypt.

- **Factoring Guidelines issued in March 2007**
  - These cover licensing requirements & registration procedures, and
  - They include rules for capital adequacy, risk management & exposure, reporting and information disclosure.
Credit Information Infrastructure

• **I-Score, First Private Credit Information Bureau in Egypt started operation in July 2007**
  – Owned by 25 Banks and Social Fund for Development
  – Uses data-sharing mechanism already established between CBE and Commercial Banks
  – Collects, saves & analyzes credit information about the customers/ clients of Banks, Leasing Cos., Mortgage Finance Companies,

• **I-Score provides the following Services**
  – Both Positive & Negative information about borrowers,
  – Provides Information about Borrowers’ Bankruptcy & Legal suits
  – Provides Credit Scoring Services – Numeric Value assigned to Borrowers (Firms & Individuals) to determine their creditworthiness & readiness for Loan repayment

• **I-Score Upcoming Projects:** SME Rating & Movable Collateral Registry.
MOI - Way Forward
GAFI SMI Strategy

• **GAFI SMI Strategy** – launched (mid November 2008)
• **Adopts Comprehensive Approach** to Address SME Challenges

• **Plays Catalyst Role** Building on Existing Efforts by Different Stakeholders
  - **Local Level**: Business & Investors Associations, Research Centers & Universities
  - **National Level**: IMC, ITC, Chambers, Relevant NGOs, and Relevant Ministries.
  - **International Level**: Donors and Development Agencies

• **Targets Four Main Pillars**
  - Promoting Entrepreneurship Culture
  - Establishing Competitiveness Poles
  - Improving Access to Finance
  - Increasing Outreach to Business Development Services (BDS)
• **Pillar I: Promoting Entrepreneurship Culture**
  - **Enterprise Egypt – Entrepreneurship Center**
    - Provide Intensive Training Programs creating a world class Entrepreneurs
    - Provide Counseling services during pre- start & establishment phases
    - GAFI – UNIDO Bahrain Project (Enterprise Development & Investment Promotion) will provide potential entrepreneurs with training, capacity building, counseling services, financial linkages & BDS for growth.
    - MOU to be signed soon between GAFI & UNIDO
  - **University Incubators in close cooperation with Ministry of Higher Education**
    - Pilot Project to set up a number of University Incubators to help Start Ups develop their ideas into sound business plans (drawing on existing capacities at universities)
    - Four Universities are currently establishing Incubators at IZs
• **Pillar II: Competitiveness Poles (Clustering)**
• This provides SMEs chance to achieve Backward & Forward linkages with large firms
• **Focus will be on Sectoral Competitiveness Poles**
  – GAFI, in collaboration with line Ministries, would select certain sectors
• **Work on Competitiveness Poles includes:**
  – Identifying available lands,
  – Targeting Potential Investors,
  – Providing R&D components,
  – Creating necessary infrastructure for Poles
  – Setting up governance structure of each pole in form of Investment Zones (bureaucracy free investment Model)

• **Training**: GAFI is developing Demand Driven Training Program to produce skills needed at Poles, in collaboration with ITC/ ILO
• **Pillar III: Access to Finance**

• **SMI Fund Management (LE 1 Billion)**

This aims at improving SME’s access to equity finance by establishing a Fund Management Company and defining its legal status.

- Finance will be mobilized by major players in the field (SMI Fund Management Companies with long proven track record), and multinational donor agencies.
- The Fund will be privately managed.
- Investors may include SFD, Institutional Investors (Pension funds & Insurance firms) in addition to International Investors (IFC & EIB)
- The Fund will have Developmental Orientation with possible sectoral and/or geographic focus

• **Inventory Book (Regular Update & Regional Outreach)** in cooperation with EBI & EJB – this will provide SMEs with information about available financial & non-financial services, SME eligibility criteria & documents needed
• A number of PE Funds interested in SMEs (mostly focus on Med Cos.)
• Egyptian Market requirement for PE Investment - estimated to be in the range of USD 200 Mn – USD 500 Mn per year
• These Funds would inject capital into high growth potential SMEs in form of PE then may exit through NILEX in three to four years

• Present Challenges to PE Industry in Egypt:
  – Legal & Regulatory issues with current Capital Market Law inhibiting the establishment of PE Funds in Egypt (most PE Funds established offshore limiting their access to institutional investors)
  – Shortage of Skills & Experience to manage PE Funds
  – Difficulty to identify investee or portfolio companies, presenting deal flow problems for PE Funds
  – Absence of Key Players in PE Market: Angel Investors, Sponsored Advisors – Market still underdeveloped
• **Pillar IV: Business Development Services**
  
  – **To Create Efficient Delivery System catering to SME needs**
    
    • **Start Ups**: Business Plan preparation, Market Research, Information, Advice on legal & financial aspects
    
    • **Existing Firms**: Marketing, Finance, HR, Quality Standards, Access to technology, access to Markets, Links to Business Networks

• **Regional Business Units:**
  
  – GAFI will use its existing widespread network of regional offices (9 offices) and would establish new ones (proposed 6 offices) to create platform for BDS delivery
  
  – GAFI signed an agreement with CIDA to provide training & information & networking services to existing SMEs in Cairo, Alex, Assuit & Ismailia

• **Compendium of Available BDS**: To develop an inventory of all available services, their providers & SME eligibility criteria
Progress Underway – Regulatory Front to enhance Competition, Contestability & Transparency

• Egyptian Institute of Directors EIOD, in cooperation with GAFI & NILEX, is currently developing Corporate Governance Guidelines for SMEs

• Improving Financial Literacy to increase Awareness about new financial services by educating Current & Potential Entrepreneurs about benefits of using new viable alternatives for traditional banking services

• Issuing Unified Companies Law – Draft Law has been prepared to be reviewed during next Parliamentary Session

• Issuing Bankruptcy Law and Regulations for Closing a Business